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U.S. TRADE POLICY
Phase I: Administration and Other Public Agencies

HEARINGS
BEFORE THE
SUBCOMMITTEE ON TRADE
OF THE
COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES
NINETY-SEVENTH CONGRESS
FIRST SESSION

OCTOBER 28, 29, 30; NOVEMBER 2, 3, AND 12, 1981

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U.S. TRADE POLICY

WEDNESDAY, OCTOBER 28, 1981

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, D.C.

The subcommittee met at 10:55 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

[Press releases pertaining to the hearing follow:]

[Press release No. 10, Aug. 7, 1981]

Chairman Sam M. Gibbons (D-Fla.), Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, Announces Oversight Hearings on U.S. Trade Policy

Representative Sam M. Gibbons (D-Fla.), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee will hold oversight hearings in late September or in October on U.S. trade policy, including policy objectives, development, coordination and administration; administration and adequacy of U.S. trade laws; trade agreements policy, implementation, and enforcement; and specific trade policy issues.

Specific dates, times, location, and format of the hearings will be announced as soon as possible.

The hearings will be limited to testimony from invited witnesses representing the Administration and the interested public on the following illustrative list. The Subcommittee will welcome suggestions or proposals regarding policies or programs in addition to the topics listed.

1. U.S. trade policy framework, development, coordination, and administration.

Elements and objectives of United States trade policy, and their relationship to policy goals of major foreign trading partners;

U.S. competitive position overall and for major sectors in the near and long-term;

Role and functions of the U.S. Trade Representative and of other Executive branch agencies in trade policy development and administration, interagency trade policy coordination;

Role of non-trade agencies and of the private sector in developing trade policy;

Relationship of trade policy goals to non-trade considerations (e.g., national security, foreign policy, inflation, employment, budget).

2. Multilateral and bilateral trade agreement policy, issues, and implementation.

Multilateral Trade Negotiations agreements, in particular the agreements on government procurement (including NTT agreement with Japan), subsidies/countervailing duties (including U.S. subsidy commitment and countervailing duty policy toward developing countries), antidumping, customs valuation, product standards, and civil aircraft; implementation, monitoring and enforcement by Executive branch agencies (including the Foreign Commercial Service); foreign government compliance; GATT dispute settlement;

GATT and OECD issues and work programs on remaining trade barriers and international trading rules (trade in services, international safeguards agreement, counterfeiting code, rules of origin, international fair labor standards, agriculture, steel, export financing, etc.);

Bilateral trade objectives and issues (e.g., Japan, European Communities, Canada, Mexico); relationship of bilateral arrangements to a multilaterial trading system.

3. Domestic trade policy, including administration and adequacy of U.S. trade laws and industry competitiveness policies; specific international trade policy goals and issues.

Administration and adequacy of U.S. trade laws, in particular, import relief, section 337, section 301, antidumping (including steel trigger price mechanism), countervailing duties, customs, agricultural laws;

Industrial policy and analysis, including trade monitoring; productivity and technology improvement for domestic and export competitiveness; structural adjustment measures; developments in major industry sectors (e.g., aircraft, electronics and telecommunications, steel, automotive, textiles, including renewal of the Multifiber Arrangement);

Export policy and administration, including legislation on trade disincentives; export promotion efforts, export financing, and export controls;

Investment policy and issues, including trade distorting incentives and disincentives (e.g., foreign domestic-content and performance requirements);

Developing country policy and issues, including Caribbean Basin policy, Generalized System of Preferences, North/South issues, and commodity agreements; East/West trade policy.

Testimony will be received by the Subcommittee from invited public witnesses following appearances by officials from the Executive branch. Any interested person or organization may file a written statement for inclusion in the printed record.

Further details will be announced in a future press release.

[Press Release No. 11, Sept. 25, 1981]

HON. SAM M. GIBBONS (D-FLA)., CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES DATES OF OVERSIGHT HEARINGS ON U.S. POLICY

The Honorable Sam M. Gibbons (D-Fla.), Chairman of the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, today announced that the first phase of oversight hearings on U.S. trade policy to be held by the Subcommittee on Trade, as previously announced on August 7 in Press Release No. 10, is now scheduled to begin on Wednesday, October 28, 1981. The hearing will be held in the Committee on Ways and Means main hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m. on each day.

In order to provide in-depth as well as comprehensive treatment, this first phase of the hearings will consist of testimony only from the Administration and other public agencies, focusing on specific subject areas each day.

In the second phase of the hearings, the Subcommittee will receive testimony from invited private-sector witnesses on dates to be announced later in light of the full Committee's schedule. The Subcommittee welcomes requests for invitations, which should be addressed to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Room 1102 Longworth House Office Building, Washington, D.C. 20515, telephone (202) 225-3627. The request should include a description of the particular subjects or issues which the testimony would address. Also, in lieu of a personal appearance, any interested person or organization may file a written statement for inclusion in the printed record.

[Press release No. 12, Oct. 23, 1981]

CHAIRMAN SAM M. GIBBONS (D., FLA.), SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES DETAILS OF OVERSIGHT HEARINGS ON U.S. TRADE POLICY

Representative Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Representatives, today announced that the first phase of oversight hearings on U.S. trade policy (previously announced in press releases #10 and #11) will begin on Wednesday, October 28, at 10:30 a.m. and continue on October 29, 30, and November 2 and 3. The hearing will be held each day in the Committee on Ways and Means main hearing room, 1100 Longworth House Office Building.

This first phase of the hearings will be limited to testimony from Administration and other public agencies appearing individually and in panels on particular subject areas as listed below. Panels on the administration of U.S. import laws (antidumping, countervailing duties, import relief, section 337, section 22) will be scheduled at a later date.

The dates for the second phase of the hearing in which testimony will be received from invited private-sector witnesses will be announced as soon as possible in light of the full committee's schedule.

SCHEDULE OF WITNESSES

Wednesday, October 28

10:30 a.m. Ambassador William E. Brock, U.S. Trade Representative; accompanied by: Ambassador David Macdonald, Deputy U.S. Trade Representative; Ambassador Michael B. Smith, Deputy U.S. Trade Representative.

Thursday, October 29

9:30 a.m. The Honorable John R. Block, Secretary of Agriculture; Myer Rashish, Under Secretary for Economic Affairs, Department of State; Malcolm R. Lovell, Under Secretary, Department of Labor.

1:00 p.m. Murray L. Weidenbaum, Chairman, Council of Economic Advisers.

PANEL: TRADE AGENDA FOR THE 1980'S; MULTILATERAL AND BILATERAL WORK PROGRAMS

Office of the U.S. Trade Representative: Ambassador William E. Brock, U.S. Trade Representative; Ambassador Michael B. Smith, Deputy U.S. Trade Representative.

Department of the Treasury: Beryl W. Sprinkel, Under Secretary for Monetary Affairs.

Department of State: Robert D. Hormats, Assistant Secretary for Economic and Business Affairs.

Department of Commerce: Raymond J. Waldmann, Assistant Secretary for International Economic Policy.

Department of Agriculture: Thomas A. Hammer, Deputy Under Secretary for International Affairs.

Friday, October 30—9:30 a.m.

PANEL: MTN AGREEMENT IMPLEMENTATION; DISPUTE SETTLEMENT

Office of U.S. Trade Representative: W. Douglas Newkirk, Assistant U.S. Trade Representative for GATT Affairs.

Department of Commerce: Raymond J. Waldmann, Assistant Secretary for International Economic Policy.

Department of Agriculture: Dr. Leo Mayer, Associate Administrator, Foreign Agricultural Service.

Department of State: William Edgar, Director, Office of International Trade.

PANEL: EXPORT DEVELOPMENT; FOREIGN COMMERCIAL SERVICE, FOREIGN AGRICULTURAL SERVICE, AND U.S. EMBASSY ROLES AND OPERATIONS

Department of Commerce: William Morris, Assistant Secretary for Trade Development; Erland H. Heginbotham, Director General of the Foreign Commercial Service.

Department of Agriculture: Richard A. Smith, Administrator, Foreign Agricultural Service.

Department of State: William Edgar, Director, Office of International Trade.

PANEL: TRADE-RELATED INVESTMENT ISSUES

Office of U.S. Trade Representative: Harvey Bale, Assistant U.S. Trade Representative for Investment Policy.

Department of Commerce: Joseph F. Dennin, Deputy Assistant Secretary for Finance and International Services.

Department of State: Elinor G. Constable, Deputy Assistant Secretary for International Finance and Development.

Department of the Treasury: Frank G. Vukmanic, Director, Office of International Investment.

Monday, November 2

10:00 a.m. The Honorable Malcolm Baldrige, Secretary of Commerce; Beryl W. Sprinkel, Under Secretary for Monetary Affairs, Department of the Treasury.

PANEL: EXPORT CONTROL POLICY AND ADMINISTRATION

Department of Commerce: Lawrence Brady, Assistant Secretary for Trade Administration.

Department of Agriculture: Richard A. Smith, Administrator, Foreign Agricultural Service.

Department of State: Harry Kopp, Deputy Assistant Secretary for Trade and Commercial Affairs.

Department of Defense: Dr. Stephen Bryen, Deputy Assistant Secretary for International Economics, Trade, and Security Policy.

PANEL: EXPORT FINANCE POLICY

Department of the Treasury: Marc E. Leland, Assistant Secretary for International Affairs.

Export-Import Bank of the United States: William H Draper III, President and Chairman.

Office of the U.S. Trade Representative: William Krist, Acting Assistant U.S. Trade Representative for Industrial Trade Policy and Energy; accompanied by Steven Piper, Coordinator, Aerospace Trade Policy.

Department of Commerce: Raymond J. Waldmann, Assistant Secretary for International Economic Policy.

Department of State: Elinor G. Constable, Deputy Assistant Secretary for International Finance and Development.

Department of Agriculture: Alan Tracy, Associate Administrator and General Sales Manager, Foreign Agricultural Service.

Tuesday, November 3, 9:30 a.m.

PANEL: U.S. INDUSTRIAL COMPETITIVENESS

Department of Commerce: Lionel H. Olmer, Under Secretary for International Trade.

Office of the U.S. Trade Representative: William Krist, Acting Assistant U.S. Trade Representative for Industrial Trade Policy and Energy; accompanied by Steven Piper, Coordinator, Aerospace Trade Policy.

Department of Labor: Michael Aho, Director, Office of Foreign Economic Research.

PANEL: U.S. BALANCES OF TRADE AND PAYMENTS AND THE IMPACT OF U.S. MONETARY AND FISCAL POLICIES

Department of the Treasury: Marc E. Leland, Assistant Secretary for International Affairs.

Federal Reserve System: Henry C. Wallich, Governor, Board of Governors.

Council of Economic Advisers: William A. Niskanen, Member.

Office of U.S. Trade Representative: Harvey Bale, Assistant U.S. Trade Representative for Investment Policy.

Department of Commerce: Robert Dederick, Assistant Secretary for Economic Affairs.

Chairman GIBBONS. Good morning. The meeting will come to order.

I always hate to start things with an apology, but I have been over with another committee as the principal witness on the coal severance tax bill that I introduced. I thought if I started at 9:30 I could get away, but they would not turn me loose; so I apologize for inconveniencing any of you.

As all of you know and as the attention in this room reflects, this is a major oversight hearing on U.S. international trade policy. We intend to conduct a complete, thorough, and a not too hurried look at what our international trade policy is, where we stand, how it is conducted, and what the plans are for the future.

We hope through this that the members of this subcommittee can become better informed as to the subjects that I talked about, and that also the administration, with the pressure through oversight we have, can help pull its own program together.

That is not a specific criticism of this administration. I think all of us who have been involved in international trade for a long time realize that America is just developing a policy in this area, a strong, coordinated policy. And we are fortunate today to have as our first witness a friend of ours, a distinguished American, one who has gained quite a reputation for himself as a member of Congress, as a leader of a political party, and as a man who is sensitive and has expertise in the area of international trade. He has with him two fine assistants known to all of us.

Ambassador Brock, I again apologize for keeping you waiting, and I look forward to hearing from you this morning. You may proceed as you wish.

Excuse me. Are there other members who would like to make an opening statement?

Mr. **Frenzel**. No. We just want to second your thoughts.

Mr. **Conable**. We are just thrilled to be open, Mr. Chairman.

Chairman **Gibbons**. Thank you very much.

Ambassador.

STATEMENT OF AMBASSADOR WILLIAM E. BROCK, U.S. TRADE REPRESENTATIVE, ACCOMPANIED BY AMBASSADOR DAVID MACDONALD, DEPUTY U.S. TRADE REPRESENTATIVE; AND AMBASSADOR MICHAEL B. SMITH, DEPUTY U.S. TRADE REPRESENTATIVE

Ambassador **Brock**. Thank you, Mr. Chairman.

As you noted, I am accompanied by Ambassador Macdonald and Ambassador Smith, our two Deputies at USTR.

Perhaps I can lead off the series of oversight hearings by calling the committee's attention to three of the most critical issues presently affecting the position of the United States in the international trade arena.

They are the restoration of U.S. competitiveness, the trade distortions caused by export financing practices, and the growing role of developing countries in international trade.

First, the restoration of U.S. competitiveness. Our concern for the restoration of our competitive strength overseas is very strong. During no other period in our history has our trade performance been more vital to the growth of our economy. Exports doubled as a percentage of GNP in the last 10 years, so that over 19 percent of all U.S. goods are shipped to foreign markets today.

Export-related employment has grown several times faster than total employment. More than ever, trade is part of our Nation's life blood.

Even before this period of rapid trade expansion the United States began to show signs of faltering competitive strength, largely as a result of domestic economic ills. Low rates of savings, investment, and expenditures on R. & D., and high rates of inflation affected the international competitiveness of American goods and contributed to a merchandise trade deficit of $24 billion or more every year since 1977.

Recent trends in productivity and investment have weakened our ability to compete abroad and have eroded our industrial base at home. While the United States has one of the highest levels of capital per worker and productivity in the world, our advantage in these areas is rapidly diminishing.

Surveys have indicated that recent expenditures of R. & D. as a percentage of GNP have declined, while developing countries are increasing their share of GNP allocated to development.

We cannot continue without losing our competitive technological lead. Therefore, this administration together with Congress has taken numerous steps to increase savings and investment while reducing inflation and the size of the Government.

Our economic ills are now of such long duration that they have threatened to modify our economic behavior permanently. Thus, our program will make progress in reversing these ominous changes, but it will take time.

What we can expect on the trade side is that as progress is made in the revitalization of our domestic economy, our international competitiveness will improve, and our economy will adjust more easily to changing conditions in international markets.

Let me proceed, and I will try to summarize, Mr. Chairman, in order to expedite the testimony part.

Chairman GIBBONS. We will put your entire statement in the record.

Ambassador BROCK. Thank you, sir.

Second, the distortions caused by export financing practices of our competitors. If we are to realize fully the benefits of open trade and if the trading system is to allocate resources sufficiently on a global scale, trade flows must reflect natural competitive advantage and not government manipulation of the conditions of trade.

It is a fact that governments still engage in a variety of trade distorting practices designed to undermine the judgment of the marketplace. Import restraints are erected to protect the domestic markets from more competitive goods and services. Targeted industries are directly supported by governments, enabling them to assume a strength that they would not otherwise possess.

Export subsidies likewise inhibit the normal competitive forces in the international marketplace. One of the most difficult and damaging export subsidy problems facing the United States today is in the area of government export financing.

As market interest rates have soared, the latitude for subsidization through cheap official export credits has grown dramatically. Some governments have been increasingly tempted to compensate for noncompetitive exports through heavily subsidized financing packages. This is particularly true, of course, with respect to the major big ticket items such as nuclear powerplants and large commercial transportation systems where financial arrangements are an important competitive factor.

Unfortunately, however, it is in just these products where the United States is very competitive and has traditionally dominated the world market. We have been concerned, for example, with the extent of export credit subsidies permitted under current international agreements concerning such goods as aircraft, powerplants, draglines, oil drilling machinery and so forth.

These and other high cost, capital intensive, high technology products have developed over decades through investment in

R. & D. and production technology, careful attention to customer service and a commitment to quality. Yet, our producers of such goods now frequently lose sales to foreign competitors, not necessarily because the competition has a better product but because they are able to draw on their national treasury for subsidized export financing.

The annual cost of interest rate subsidies paid by the major OECD countries is estimated to have been at least $5½ billion in 1980. It is possible in 1981 that that figure could reach over $10 billion. France alone provided $2.3 billion in subsidies, the United Kingdom $1 billion, Japan $566 million, and the United States $315 million.

Clearly, these amounts must be reduced. Accordingly, the administration has acted forcefully on the international front to reform the OECD arrangement on export credits. We have just concluded an agreement with 21 other OECD participants to increase the Arrangement's minimum interest rate level at 2¼ to 2½ percentage points. This should result in a reduction of 20 to 25 percent in export credit subsidies.

In addition, we have for the first time some limited acceptance of the principle that minimum interest rates sanctioned by the arrangement should be differentiated by currency. Japan and other low interest rate countries are now authorized to key their official export credit rates to their financial market rates down to a floor of 9¼ percent. And the participants have agreed to meet in March to review the entire arrangement with the objective of bringing its interest rates more into line with market rates prevailing at the time.

Another noteworthy accomplishment was the recent decision by major producers of commercial jet aircraft to adhere to a common set of guidelines concerning the financing of such aircraft. Although the OECD standstill for aircraft financing contains no discipline on interest rates, these recent informal discussions with some of our major trading partners contemplate that dollar financing will be at a 12-percent interest rate.

I think these two achievements constitute the most significant improvement to international rules governing export finance since the arrangement was signed in 1978. While we are pleased with the progress of the last few weeks, we are under no illusions that the job is finished. Export credits must, in the final analysis, be eliminated.

The administration's position is that finance must be a neutral element in international trade competition, and we are following a plan designed to return it to the appropriate position. We will press for a continued reform of the OECD arrangement at the highest political level, and we will explore how other trade options can be helpful. We will continue to target our resources to those sectors where financing is critical to securing the sale. We will consider a number of strategies designed to improve the competitiveness of our financing packages.

One proposal which I believe deserves serious consideration is the creation of an interest subsidy program which would afford us the flexibility to match the subsidized financing offers of foreign governments, particularly in those sectors where predatory financing practices will continue despite arrangement reform.

The interest subsidy approach to financing could not only enable us to neutralize financing as an element in international competition in the short term, it could increase our negotiating leverage at future OECD arrangement discussions.

In reviewing propoals that could increase the cost of export credits, careful consideration, of course, must be given to progress in the international negotiations and to our domestic and economic budgetary concerns in order to insure that they are consistent with the broader economic objectives of the administration, including avoidance of increased Federal intervention in capital markets.

Another point that needs to be emphasized is that the Government subsidization of export financing for manufactured goods not only threatens U.S. exports, but it can also seriously distort trade here in our own market. Let me note that the subsidies agreement clearly states that such assistance should not adversely affect the trade interests of others. Our companies and our trading partners should know that we are prepared to act firmly using such available remedies as are appropriate to the particular circumstances to insure that goods are fairly traded in the U.S. market without being dumped or subsidized in an injurious way.

Essential to our efforts on both the international and domestic fronts is working closely with the Congress so that a lasting solution to the trade distorting practice of subsidized export credits can be reached quickly, and U.S. exporters will no longer be unfairly penalized.

The third component is U.S. trade relations with developing countries. Free international competition and an open global trading system is in the economic interest of all countries, not only the United States. The free flow of goods and services provides an ever-increasing market for all trading nations. Subsidization, either of exports or export financing, prevents resources from being efficiently allocated and narrows the range of economic opportunities for citizens in all countries.

That said, we would be naive to think that some countries are not delighted to buy exports subsidized by the taxpayers in another country. This is especially true in the case of credit subsidization for exports to developing countries for whom high borrowing costs are a serious drag on development plans.

This is shortsighted, however, as scarce international resources will end up in second or third best uses, and tomorrow everyone, including developing countries, will be paying unnecessarily high prices for today's subsidized goods.

Following last week's summit in Cancun, much attention is being focused on developing countries' economies. I would like to elaborate on the contribution trade makes to foreign economic development and what role the United States has played in spurring this process.

Developing countries experienced an impressive expansion of trade during the last decade. The volume of exports from the oil importing developing countries grew at an average rate of 6.3 percent in the seventies compared to average annual growth of 5½ percent for industrial nations. However, trade expansion in the Third World, especially in the manufacturing sector, has been highly concentrated among less than a dozen countries.

The sharp differences among LDC's trade performances despite comparable access to international markets suggests that the policies and circumstances of the individual LDC's are the major determinants of trade success.

This hypothesis was demonstrated during a 10-nation trip I took to Asia this summer. In the space of a month, I met with finance, trade, and agricultural ministers of these countries and in many cases with their heads of state.

I was particularly struck by the dynamic growth of the ASEAN nations which today constitute our fifth largest trading partner. The total trade between us and the ASEAN nations has nearly tripled since 1974. Should these unusually high rates of growth continue, the ASEAN countries could be our No. 1 trading partner by the end of this century.

I found a number of trade policies common to many of these nations which merit review. Foremost among these policies was the progressive elimination of economic rigidities induced by import substitution and export subsidization policies, greater domestic reliance on the free market, encouragement of foreign direct investment through forums such as the U.S.-ASEAN Business Council and, with the exception of Thailand which is now considering accession, through active participation in the GATT.

Again, the critical ingredient to success appears to be a willingness to maintain open markets. The United States will continue to encourage the progressive reduction of trade barriers in our major LDC trading partners, and especially in the more advanced economies.

The U.S. contribution to LDC trade expansion over the past decade should be viewed in terms of a consistent commitment to open markets, a position sometimes not shared by some of our major industrial trading partners.

Historically, the United States has provided one of the most open markets in the world. The average duty collected on dutiable exports has been 10 percent or lower since 1970. In 1980 the average duty collected was 5.5 percent. When we complete the implementation of our MTN tariff reductions, this rate will fall to approximately 4 percent for industrial products. U.S. quantitative restrictions on imports are few, and our customs procedures are highly transparent and predictable.

In addition to the general openness of our market, for the past 6 years the United States has maintained the generalized system of preferences, which provides developing countries with preferential duty-free treatment on many products.

Although the overall volume of trade affected by the U.S. GSP is quite small, it is generally felt that the program has helped developing countries diversify their economies and increase export earnings. This development through trade lessens developing country need for external aid and promotes the fuller integration of developing countries in the international trading system.

Statutory authority for the U.S. GSP expires in January 1985. The administration has decided to seek an extension of that authority, but before submitting extension legislation to Congress, we will take a fresh look at the program's purpose, its role within overall U.S. trade policy with the developing countries, its operation and its impact on different beneficiaries. In this respect, the administration will work closely with the Congress.

In addition, we plan to conduct public hearings next spring throughout the United States at which we will solicit comments from all interested parties on the GSP. We would hope then to be able to put together a program closely tailored to LDC needs and U.S. trade goals in the eighties.

The administration will take advantage of this introspective period to explore with the other 18 GSP donor countries the feasibility of developing an internationally harmonized GSP program. At present, the operational aspects of the major programs differ widely, placing an unnecessary burden on LDC exporters.

We will take the initiative—and in fact, I have already begun informal consultations with the EC and Japan—in seeking a simplification of the international GSP network.

The foreign exchange that developing countries earn through trade dwarfs the funds available to them through development assistance. In 1980, for example, the value of exports from the non-OPEC developing countries to the United States was $63.4 billion. It was more than twice as great as the total net official development assistance received by developing countries from all bilateral and multilateral sources combined. In so many words, LDC's are earning twice the dollars that they are receiving in grant form just by selling in this market.

In the past 2 years alone the non-OPEC developing countries have earned more from exports to the United States—$114.5 billion—than the entire Third World has received from the World Bank in the 36 years of that institution's existence.

Trade's contribution to development can be enhanced substantially by complementary flows of private investment and development assistance. Such an integrated and complementary development perspective plays a vital role in the Caribbean Basin initiative.

In the past few months the administration has engaged in intensive analysis and developed numerous options in consultation with other concerned countries, interested private groups and potential beneficiaries. I am excited about three aspects of our approach.

First, we are attempting to combine trade, aid, and investment tools to provide an effective stimulation for growth. Second, we realize that to be successful we must limit the role of our Government and engage the vitality and energy of the private sector. Third, this is the first attempt of which I am aware where we are working with other donor countries, including some at different levels of economic development, to assist a particular region.

We are ready to make a major effort, and I will soon be bringing specific proposals to the Congress for consideration by this subcommittee.

My comments thus far have focused on what contribution trade has made to the development of the Third World. This process has been encouraged every step of the way by the United States. We have done so not only because this country has traditionally taken a great interest in helping those in need to reach their development goals, we have also done so because economic growth abroad translates into economic strength at home.

Developing countries provide the fastest growing markets for U.S. exports. For the period 1973 to 1980 real GNP grew at an average rate of 5 percent in oil importing developing countries compared to an average annual growth rate of just 2 percent in industrial countries.

The products that these dynamic economies are absorbing—capital goods and heavy machinery, as well as agricultural products—are precisely those items in which the United States is extremely competitive in the international market.

During the seventies oil importing developing countries absorbed about one-quarter of all U.S. exports of manufactures, and this share is increasing. At the same time, these countries buy approximately one-third of all our agricultural shipments. It is very simple: The more we encourage their development, the more they will encourage ours.

One other point should be raised concerning the importance of developing country economies to the economic health of the United States. The oil shocks of the past several years have very severely affected the foreign payments accounts of oil importing LDC's. The aggregate annual current account deficit for these countries rose from $37 billion in 1978 to $82 billion in 1980 and may reach $97 billion this year.

Outstanding medium and long-term debt of LDC's has risen substantially and surpassed $425 billion in 1980, of which oil importing LDC's accounted for $300 billion. A great deal of this debt is held by U.S. banks.

The openness of industrial markets to LDC exports is not just essential to LDC prospects for growth, but also to their ability to meet their international financial obligations and to finance future borrowing for development. If substantial financial resources are going to continue to flow to LDC borrowers, then trade policy should help keep risks in an acceptable range by maintaining open markets for LDC exports. LDC's require substantial and continued export earnings to meet that obligation.

Furthermore, private creditors in the future will be unlikely to expand their lending to countries with poor export performances. The administration's trade policy, which promotes open markets both in the United States and abroad, must be characterized as one of the soundest guarantees for outstanding LDC loans and for the smooth operation of the international financial system in the future.

It is in the economic interest of the United States to encourage further developing country participation in the international trading system. We cannot afford to have those markets which are so important to the vitality of the U.S. economy operating outside the accepted rules of international trade and outside the GATT.

In this regard, the United States took the lead during the MTN and encouraged developing country participation in bilateral tariff agreements, as well as in the multilateral nontariff measures codes. Our efforts will continue.

The 1982 GATT ministerial provides an excellent opportunity to strengthen this process. We intend to work closely with developing countries in preparing for the ministerial, and we hope the post-ministerial work plan will lay the groundwork for more active, responsible participation by developing countries in the GATT during the next decade.

Mr. Chairman, U.S. trade policy faces great challenges in the next couple of years, but I think these are opportunities to broaden and increase the export potential of the United States. We cannot do this alone. I do intend to work closely with each of you in the months ahead, and I appreciate the spirit of cooperation which I have shared with this committee.

Thank you.

[The prepared statement follows:]

STATEMENT OF HON. WILLIAM E. BROCK, U.S. TRADE REPRESENTATIVE

Mr. Chairman, I would like to lead off this series of Oversight Hearings by calling the Committee's attention to three of the most critical issues presently affecting the position of the United States in the international trading arena. They are: the restoration of U.S. competitiveness; the trade distortions caused by export financing practices; and the growing role of developing countries in international trade.

THE RESTORATION OF U.S. COMPETITIVENESS

Our concern for the restoration of U.S. competitiveness overseas is very strong. During no other period in our nation's history has our trade performance been more vital to the growth in our economy. Exports doubled as a percentage of GNP in the last ten years so that today over 19 percent of all U.S. goods are shipped to foreign markets. Export-related employment has grown several times faster than total employment in recent years and more than 5 million American workers are now dependent on the export of goods. More than ever, trade is part of our nation's lifeblood.

Even before this period of rapid trade expansion, the U.S. began to show signs of faltering competitive strength, largely as a result of domestic economic ills. Low rates of savings, investment and expenditures on R&D and high rates of inflation affected the international competitivess of American goods and contributed to a merchandise trade deficit of $24 billion or more every year since 1977.

Recent trends in U.S. productivity and investment have weakened our ability to compete abroad and eroded our industrial base at home. While the United States has one of the highest levels of capital per worker and productivity in the world, our advantage in these areas is rapidly diminishing. A recent survey of 19 industrial countries indicated that the United States now ranks 17th in the rate of productivity growth and 19th in the rate of investment. Other surveys have indicated that U.S. expenditures on research and development as a share of GNP have declined, while other developed countries are increasing their share of GNP allocated to research and development. The United States is losing its technological lead, and this is bound to have serious consequences for the international competitiveness of U.S. products.

Therefore, this Administration together with the Congress has taken numerous steps to increase savings and investment while reducing inflation and the size of government. Our economic ills are now of such long duration that they have threatened to modify our economic behavior permanently. Our program will make progress in reversing these ominous changes but it will take time. What we can expect on the trade side is that, as progress is made in the revitalization of our domestic economy, our international competitiveness will improve and our economy will adjust more easily to changing conditions in international markets.

The outlook for improved economic strength gives us all the more reason to take the lead in preserving the open international system of trade which offers U.S. exporters the greatest opportunity to benefit from improved competitiveness. Likewise, it will provide other nations, particularly developing countries, with the best environment for achieving their aspirations for high incomes and more efficient use of their resources.

The economic difficulties of the last few years have not been limited to the United States. Internal pressures to reduce access for imports have grown in both developed and developing countries as economic performance deteriorated. We therefore have taken the opportunity, on every available occasion, to encourage our trading partners to support an open international trading system. At major international economic meetings at the GATT and OECD in June of this year, we strongly supported international cooperation to avoid any progressive erosion of the open, multilateral trading system and to fully and effectively implement the Tokyo Round agreements.

Furthermore, steps have been taken to begin to deal with a series of new, unresolved trade problems which pose major constraints to trade expansion in the 1980s. The Consultative Group of Eighteen, the GATT's high-level steering group agreed to recommend the convening of a full scale GATT Ministerial meeting in November 1982 to examine the major trade issues of the 1980s. I will cover in greater detail tomorrow this GATT initiative, which was given early support during the Ottawa Summit. The OECD also has been charged by its members to report on the major trade issues of the 1980s. This issues agenda being developed at the OECD secretariat and the work to be done at the GATT will be important milestones in our efforts to bring such important areas as barriers to trade in services, trade-related investment practices, and LDC trade under international review and agreement during the 1980's.

THE DISTORTIONS CAUSED BY EXPORT-FINANCING PRACTICES OF OUR COMPETITORS

If we are to realize fully the benefits of open trade, and if the trading system is to allocate resources efficiently on a global scale, trade flows must reflect natural competitive advantage and not government manipulation of the conditions of trade. It is a fact that governments still engage in a variety of trade-distorting practices, designed to undermine the judgement of the marketplace. Import restraints are erected to protect domestic markets from more competitive goods and services. Targetted industries are directly supported by governments enabling them to assume a strength they would not otherwise possess. Export subsidies likewise inhibit the normal competitive forces in the international marketplace.

One of the most difficult and damaging export subsidy problems facing the United States today is in the area of official export financing. As market interest rates have soared, the latitude for subsidization through cheap official export credit has grown dramatically. Some governments have been increasingly tempted to compensate for noncompetitive exports through heavily subsidized financing packages. This is particularly true, of course, with respect to big ticket items such as nuclear power plants and large commercial transportation systems where financial arrangements are an important competitive factor. Unfortunately, however, it is in just these products where the United States is very competitive and has traditionally dominated the world market.

We have been concerned, for example, with the extent of export credit subsidies permitted under current international agreements concerning such goods as aircraft, power plants, draglines, oil drilling machinery, etc. These and other high cost, capital intensive, high technology products have been developed over decades through investment in R&D and production technology, careful attention to customer service, and a commitment to quality. Yet, our producers of such goods now frequently lose sales to foreign competitors, not necessarily because the competition has a better product, but because they are able to draw on their national treasury for subsidized export financing. The annual cost of interest rate subsidies paid by the major OECD countries is estimated to have been at least $5.5 billion in 1980. France alone provided $2.3 billion of such subsidies, the U.K. $1 billion, Japan $566 million, and the United States $315 million. Clearly, these amounts must be reduced.

Accordingly, the Administration has acted forcefully on the international front to reform the OECD Arrangement on Export Credits. We have just concluded an agreement with 21 other OECD participants to increase the Arrangement's minimum interest rate levels by 2.25–2.50 percentage points. This should result in a reduction of 20–25 percent in export credit subsidies. In addition, we have for the first time won some limited acceptance of the principle that minimum interest rates sanctioned by the Arrangement should be differentiated by currency; Japan and other low interest rate countries now are authorized to key their official export credit rates to their financial market rates, down to a floor of 9.25 percent. And the participants have agreed to meet again next March to review the entire Arrangement with the objective of bringing its interest rates even more into line with market rates prevailing at the time.

Another noteworthy accomplishment was the recent decision by major producers of commercial jet aircraft to adhere to a common set of guidelines concerning the financing of such aircraft. Although the OECD "Standstill" for aircraft financing contains no discipline on interest rates, these recent informal discussions with some of our major trading partners contemplate that dollar financing will be at a 12 percent interest rate.

These two achievements constitute the most significant improvements in international rules governing export finance since the Arrangement was first signed in 1978. While we are pleased with the progress of the last few weeks, we are under no illusions that the job is finished. Export credit subsidies must be eliminated.

The Administration's position is that finance must be a neutral element in international trade competition, and we are following a plan designed to return it to this appropriate position. Our plan consists of a multifaceted negotiating strategy aimed fundamentally at reducing export credit subsidization. As part of this strategy we will press for continued reform of the OECD Arrangement at the highest political level and we will explore how other trade options can be helpful. We will continue to target our resources to those sectors where financing is critical to securing the sale, and to consider a number of strategies designed to improve the competitiveness of our financing packages.

One proposal, among others, that I believe deserves consideration is an interest subsidy program which would afford us the flexibility to match the subsidized financing offers of foreign governments, particularly in those sectors where predatory financing practices will continue despite Arrangement reform. The interest subsidy approach to financing could not only enable us to neutralize financing as an element in international competition in the short-term, it could increase our negotiating leverage at future OECD Arrangements discussions.

In reviewing proposals that could increase the cost of export credits, careful consideration, of course, must be given to progress in the international negotiations and to our domestic economic and budgetary concerns in order to ensure that they are consistent with the broader economic objectives of the Administration, including avoidance of increased federal intervention in capital markets.

Another point that needs to be emphasized is that government subsidization of export financing for manufactured goods not only threatens U.S. exports, but it can also seriously distort trade here in our own market. Let me note that the Subsidies Agreement clearly states that such assistance should not adversely affect the trade interests of others. Our companies and our trading partners should know that we are prepared to act firmly, using such available remedies as are appropriate to the particular circumstances, to ensure that goods are fairly traded in the U.S. market without being dumped or subsidized in an injurious way.

Essential to our efforts on both the international and domestic fronts is working closely with the Congress so that a lasting solution to the trade distorting practice of subsidized export credits can be reached quickly and U.S. exporters will no longer be unfairly penalized.

U.S. TRADE RELATIONS WITH DEVELOPING COUNTRIES

Free international competition in an open, global trading system is in the economic interest of all countries, not only the United States. The free flow of goods and services provides an ever increasing market for all trading nations. Subsidization, either of exports or export financing, prevents resources from being efficiently allocated and narrows the range of economic opportunities for citizens in all countries. That said, we would be naive to think that some countries are not delighted to buy exports subsidized by the taxpayers in another country. This is especially true in the case of credit subsidization for exports to developing countries, for whom high borrowing costs are a serious drag on development plans. This is short sighted, however, as scarce international resources will end up in second- or third-best uses and tomorrow everyone, including developing countries, will be paying unnecessarily high prices for today's subsidized goods.

Following last week's Summit in Cancun much attention is being focused on developing countries' economies. I would like to elaborate on the contribution trade makes to foreign economic development and what role the United States has played in spurring this process.

Developing countries experienced an impressive expansion in trade during the last decade. The volume of exports from the oil importing developing countries grew at an average annual rate of 6.3 percent in the 1970's compared to average annual growth of 5.5 percent for industrial countries. However, trade expansion in the Third World, especially in the manufacturing sector, has been highly concentrated among less than a dozen countries.

The sharp differences among LDC's trade performance despite comparable access to international markets suggests that the policies and circumstances of the individual LDCs are the major determinants of trade success. This hypothesis was confirmed during a ten nation trip I took to Asia this summer. In the space of a month I met with the Finance, Trade and Agriculture Ministers of these countries and in many cases with their Heads of States. I was particularly struck by the dynamic growth of the ASEAN nations which today constitute our fifth largest trading partner. Total trade between the United States and the ASEAN countries has nearly tripled since 1974. Should these unusually high rates of growth continue, the ASEAN countries could be our number one trading partner by the end of this century.

I found a number of trade policies common to many of these ASEAN countries which merit review. Foremost among these policies was the progressive elimination of economic rigidities induced by import substitution and export subsidization policies, greater domestic reliance on the free market, encouragement of foreign direct investment through forums such as the U.S.-ASEAN Business Council and, with the exception of Thailand which is considering accession, through active participation in the GATT. Again, the critical ingredient to success appears to be a willingness to maintain open markets. The United States will continue to encourage the progressive reduction of trade barriers in our major LDC trading partners, and especially in the more advanced economies.

The U.S. contribution to LDC trade expansion over the past decade should be viewed in terms of a consistent commitment to open markets—a position sometimes not shared by some of our major industrial trading partners. Historically, the United States has provided one of the most open markets in the world. The average duty collected on dutiable imports has been 10 percent or lower since 1970. In 1980 the average duty collected was 5.5 percent. When we complete the implementation of our MTN tariff reductions, this rate will fall to approximately 4 percent for industrial products. U.S. quantitative restrictions on imports are few, and our customs procedures are highly transparent and predictable.

In addition to the general openness of our market, for the past six years the United States has maintained the Generalized System of Preferences, which provides developing countries with preferential duty-free treatment on many products. Although the overall volume of trade affected by the U.S. GSP is quite small, it is generally felt that the program has helped developing countries deversify their economies and increase export earnings. This development through trade lessens developing country need for external aid and promotes the fuller integration of developing countries in the international trading system.

Statutory authority for the U.S. GSP expires in January 1985. The Administration has decided to seek an extension of that authority, but before submitting extension legislation to Congress we will take a fresh look at the program's purpose, its rule within overall U.S. trade policy with the developing countries, its operation, and its impact on different beneficiaries. In this connection, the Administration will work closely with the Congress. In addition, we plan to conduct public hearings next spring throughout the United States in which we will solicit comments from all interested parties on the GSP. We would hope to be able then to put together a program closely tailored to LDC needs and U.S. trade goals in the 1980s.

The Administration will take advantage of this introspective period to explore with the other 18 GSP donor countries the feasibility of developing an internationally harmonized GSP program. At present the operational aspects of the major programs differ widely, placing an unnecessary burden on LDC exporters. We will take the initiative—and in fact have already begun informal consultations with the EC and Japan—in seeking a simplification of the international GSP network.

The foreign exchange that developing countries earn through trade dwarfs the funds available to them through development assistance. In 1980, for example, the value of exports from the non-OPEC developing countries to the United States ($63.4 billion) was more than twice as great as total net official development assistance received by developing countries from all bilateral and multilateral sources combined. In the past two years alone, the non-OPEC developing countries have earned more from exports to the United States ($114.5 billion) than the entire Third World has received from the World Bank in the 36 years of that institution's existence.

Trade's contribution to development can be enhanced substantially by complementary flows of private investment and development assistance. Such an integrated and complementary development assistance. Such an integrated and complementary development perspective plays a vital role in the Caribbean Basin Initiative. As you know, I have been charged with designing and coordinating a pilot development plan tailored to the specific needs of the Caribbean.

During the past few months the Administration has engaged in intensive analysis and developed numerous options in consultation with other concerned countries, interested private groups and potential beneficiaries. I am excited about three aspects of our approach. First, we are trying to combine trade, aid, and investment tools to provide an effective stimulant for growth. Secondly, we realize that to be succcessful we must limit the role of our Government and engage the vitality and energy of the private sector. Thirdly, this is the first endeavor, of which I am aware, where we are working with other donor countries, including some at different levels of economic development, to assist a particular region. We are ready to make a major effort, and I will soon be bringing specific proposals to the Congress for consideration by this Subcommittee.

My comments thus far have focused on what contribution trade has made to development in the Third World. This process has been encouraged every step of the way by the United States. We have done so not only because this country traditionally has taken a great interest in helping those in need to reach their development goals. We have also done so because economic growth abroad translates into economic strength at home. Developing countries provide the fastest growing markets for U.S. exports. For the period 1973–1980 real GNP grew at an average annual rate of 5 percent in oil-importing developing countries compared to an average annual growth rate of just 2 percent in industrial countries. The products that these dynamic economies are absorbing—capital goods and heavy machinery as well as agricultural products—are just those items in which the United States is extremely competitive in the international market. During the 1970's oil-importing developing countries absorbed about one-quarter of all U.S. exports of manufactures and this share is increasing. At the same time, these countries buy approximately one-third of all our agricultural shipments. It's very simple. The more we encourage their development, the more they will encourage ours.

One other point should be raised concerning the importance of developing country economies to the economic health of the United States. The oil shocks of the past several years have very severely affected the foreign payments accounts of oil-importing LDCs. The aggregate annual current account deficit for these countries rose from $37 billion in 1978 to $82 billion in 1980 and may reach $97 billion this year. Outstanding medium and long-term debt of LDCs has risen substantially and surpassed $425 billion in 1980, of which oil-importing LDCs accounted for $300 billion. A great deal of this debt is held by U.S. banks.

The openness of industrial markets to LDC exports is not just essential to LDC prospects for growth but also to their ability to meet their international financial obligations and to finance future borrowings. If substantial financial resources are going to continue to flow to LDC borrowers, then trade policy open markets for LDC exports. LDCs require substantial and continued export earnings to meet debt obligations. Furthermore, private creditors in the future will be unlikely to expand their lending to countries with poor export performances. The Administration's trade policy which promotes open markets both in the United States and abroad must be characterized as one of the soundest guarantees for outstanding LDC loans for the smooth operation of the international financial system in the future.

It most certainly is in the economic interest of the United States to encourage further developing country participation in the internaitonal trading system. We cannot afford to have those markets which are so important to the vitality of the U.S. economy operating outside the accepted rules of international trade. In this regard, the United States took the lead during the MTN in encouraging developing country participation in bilateral tariff agreements as well as in the multilateral non-tariff measures codes. Our efforts will continue. The 1982 GATT Ministerial provides an excellent opportunity to strengthen this process. We intend to work closely with developing countries in preparing for the Ministerial and we hope that the post-Ministerial work plan will lay the groundwork for more active, responsible participation by developing countries in the GATT during the next decade.

U.S. trade policy faces great challenges in the next couple of years. But I consider these challenges as opportunities to broaden and increase the export potential of the U.S. economy. The Administration cannot do this alone, however, I intend to work closely with each of you in the months ahead in order to ensure that this goal is met.

Chairman GIBBONS. Thank you, Mr. Ambassador.

I personally want to express my appreciation for the fine cooperation we have had with you and your staff. I have no criticism at all on that.

Ambassador BROCK. Thank you.

Chairman GIBBONS. I look forward to continuing to work with you on that kind of basis.

You know, this committee looks upon your office as being the principal voice of our government as far as trade policy is concerned. We realize that the execution of trade policy is somewhat fragmented in our country. We are exploring constantly ways to improve that, so my questions are going to be about that and about your statement also.

First, could you refresh my recollection and that of the committee's as to where we stand on our balance of trade, all trade. Where did we stand last year? What are your predictions for trade in the future?

Ambassador BROCK. The merchandise trade deficit, as I mentioned in my statements, is substantial and maintains a substantial negative position. The current account was fairly well balanced until recently. The problem we face in the next several months is that the strength of the dollar has become a major factor in the trade balance we face.

We have the prospect of far less competitive U.S. prices overseas and far more competitive prices for imports. We have seen in the last few months, particularly in areas like steel, a very sizable surge of imports because of the relative devaluation of other currencies vis-a-vis the U.S. dollar.

If you would like, Mr. Chairman, I can submit for the record a response in precise terms to your question, a table which shows the U.S. merchandise trade balances monthly and quarterly running through each month of this year and the merchandise trade by product area.

Chairman GIBBONS. I am interested not only in merchandise trade but in all trade, trade in services. As I recall, last year we were about in balance as far as total trade was concerned, merchandise, services, and everything else.

Is it your prediction that this year in merchandise and services we're going to be in deficit?

Ambassador BROCK. Yes, sir.

Chairman GIBBONS. By how much do you think we will be in deficit?

Ambassador BROCK. If I can just summarize the numbers for you: January through June of this year the deficit in merchandise trade was $11½ billion.

Chairman GIBBONS. January through June, merchandise only $11½ billion?

Ambassador BROCK. The services-trade balance was $20 billion plus. Military trade was a negative $1.1 billion. Unilateral transfers was $3 billion negative. So the current account in the first 6 months of the year was positive, $4 billion.

I am concerned that it is going to be very difficult to sustain that positive number. We have been in deficit. In 1980, we were in deficit in merchandise by $25 billion. That was completely offset by services, fortunately, so that we ended up with a current account balance of $3.7 billion. We improved on that in the first 6 months.

What we are seeing now, though, Congressman Gibbons, is a slowing, or more accurately, a stablizing, of our export performance. It seems to be on a plateau, while we have had a significant increase in imports. As a consequence, I am fearful that the current account will be in deficit, if not by the end of the calendar year, it certainly will be for the fiscal year, unless the dollar changes in relationship to other currencies.

Chairman GIBBONS. And you attribute that primarily to the strength of the dollar and the fact that it makes imports much more attractive in this country.

Ambassador BROCK. I would have to add one other factor. The major factor has been the strength of the dollar, and frankly, that is not something we can complain about, because that is precisely what we have been seeking to do—to demonstrate a strong U.S. economy and the willingness to deal with inflation.

But when you couple as much as a 35 to 40 percent relative shift in the value of the dollar vis-a-vis the currencies of most of our major trading partners in Europe with the fact that the European economy has been very, very troubled of late, it just is not a very good market for us. And we go in with higher-priced U.S. goods because the dollar is strong at the very time when there is not a great demand for any product in Europe. And where we are still maintaining pretty good trade is frankly in the developing nations. Even there the value of the dollar is making it more difficult for us to be competitive.

Chairman GIBBONS. Mr. Ambassador, I want to go over with you a little bit how trade policy is made in the United States. And I realize that this administration is still young, and it has had other problems that it probably considered more urgent to deal with.

But we have a number of agencies set up. The Congress has delegated most of its trade functions to the executive. You are the principal officer of the executive to receive the delegated authority there. And then the executive has set up a number of agencies to coordinate and implement that policy.

I am just trying to get an overview of how active these agencies actually are. The first thing we have is your agency. Can you tell me how many people you have in your agency, and what the budget is, and whether it is moving up or down?

Ambassador **Brock**. You are in a painful area, Mr. Chairman. [Laughter.]

We have 113 permanent positions in this massive bureaurcracy of the Trade Office, and our budget will be approximately $10 million. We have been subject, as have been all agencies, to a substantial reduction in that number, which is most uncomfortable because we do not have anything in our budget other than people and travel money. We have no major programs that we administer that could be reduced or terminated.

But an approximately $10 million budget and 113 people is the answer.

Chairman **Gibbons**. I was going to ask you if you think that is adequate, but that would be an embarrassing question.

Ambassador **Brock**. Yes, it would.

Mr. **Frenzel**. Would the Chairman yield?

Chairman **Gibbons**. Certainly.

Mr. **Frenzel**. When we worked with the previous administration to make the reorganization, we contemplated at the time that USTR would require 130 people; so there has been a substantial reduction.

Ambassador **Brock**. We had hoped for some expansion, primarily because the Congress did substantially increase the duties of the U.S. Trade Representative's Office in the reorganization of 2 years ago.

In the services area we have now a great deal of work ahead of us. The world traumatization program we are involved in and also the GATT ministerial will be very demanding of our time in the next year. But we have to live with the constraints every agency does, and we simply have to get this budget under control. Every office has to carry a share, so we have to cut back from $10 to $9 million, and we will have to make do with what we have.

Chairman **Gibbons**. How often does the Trade Policy Committee meet, or has it ever met?

Ambassador **Brock**. It met once in the year preceding my arrival. It has met probably every 3 weeks this year since I have been in office. It has been a good, solid, active committee and very, very helpful in the process of trade policy formulation.

Chairman **Gibbons**. Did the Secretaries actually attend or do they send their deputies?

Ambassador **Brock**. Most of the time we have Cabinet officers in attendance. I can think of no occasion in which there were less than half the Cabinet members present. There has been very good, solid participation which makes it possible for it to work. Otherwise, the Trade Policy Review Group at the Assistant Secretary level would be used as the decisionmaking forum.

Chairman **Gibbons**. You are not actually negotiating under the MTN or anything like that. Is it necessary for the Trade Negotiating Committee to meet now, or is that relatively inactive?

Ambassador **Brock**. It is relatively inactive at the moment, since USTR is not involved in a major negotiation.

Chairman **Gibbons**. How about the Trade Policy Review Group; that is, Mr. Macdonald's group?

Ambassador **Brock**. That has been an active group. David Macdonald will comment on that.

Chairman **Gibbons**. How many times have you met?

Mr. **Macdonald**. Mr. Chairman, it has sharply increased its activities in the last 4 weeks or so. We have met about 4 times in the last 2 months. Prior to that the Trade Policy Staff Committee had been carrying much of the burden that we moved into the Trade Policy Review Group over the last 2 months.

Chairman **Gibbons**. I am glad to see that increase in the use of the function, because as I say, you have set up a very small agency. You are now down to 113 people with a small budget to try to coordinate this massive Government that we have here and all of its trade functions; and it is going to take a very active role of leadership to carry out those functions.

I have some other questions, but I will yield now to Mr. Frenzel, then to Mr. Jenkins.

Ambassador **Brock**. Perhaps I could make one self-serving comment. We only have 113 people, but they are the best people in the town.

We have a very high quality of staff, Mr. Chairman. I appreciate having the opportunity to work with them.

Mr. **Frenzel**. That stands in lieu of a raise for all of your employees. [Laughter.]

Ambassador **Brock**. Something has to stand in lieu of a raise, Congressman. [Laughter.]

Mr. **Frenzel**. Mr. Chairman, I want to welcome Ambassador Brock and Ambassador Macdonald and Ambassador Smith to these hearings, and I particularly want to do so in the name of Congressman Vander Jagt, the ranking Republican, who is necessarily absent; but he wanted to convey his greetings and his thanks to you for the splendid job you have been doing. And I want to second his comments, because the subcommittee had a chance to follow you through the Far East, Mr. Ambassador and to observe your work at the Shimoda Conference. And we are very proud of the work you are doing, and we want to be supportive in what is a cooperative and joint effort.

Your testimony is very interesting today but of necessity can only touch a few points on a very, very broad subject, and all of us have a number of questions that they want to tender. Some of them you may want to respond to at length for the record, and some you may want to answer directly.

Of course, one of the items that you touched on in your testimony relates to export financing, and you make a statement on page 8 about our intention to act very firmly. I was wondering exactly what that means and whether you might be willing to be more specific than your written and oral testimony.

I would like to leave you free to answer or to comment in that area in the way you would want to give us a little better idea of how you personally feel in this area.

Ambassador **Brock**. I appreciate that. First of all, let's look broadly at the problem. The problem is that Government subsidy of export credits is clearly a trade-distorting mechanism.

In the subsidies agreement that we signed with most of our trading partners we agreed that such practices would not impact in an injurious fashion upon another trading partner. That was part of the agreement.

Second, it just doesn't make sense for us to subsidize exports to Europe and Europe to subsidize exports to us in a fashion that just displaces workers in both countries to no logical end product.

What we have been trying to do is to negotiate a resolution of the abuse. We have made, as I mentioned, a good deal of progress. We achieved the raise to 10 percent with the exception of Japan, which goes to a market rate or a minimum of 9¼. We finally were successful in getting our trading partners to address the problem of mixed credits, which has been an area of substantial abuse. This is only a 6-month agreement, and I think that is good because it gives us 6 months in which to improve the work product because this certainly is not an end result.

Mr. FRENZEL. Where was this agreement achieved, Mr. Ambassador?

Ambassador BROCK. In Paris.

Mr. FRENZEL. It is an OECD agreeement, not a GATT agreement?

Ambassador BROCK. That is correct. While we have made some progress, we continue to see a problem when the Eximbank has to borrow at the Federal funds rate of 15½ percent and loan at 10¾. It is hard to make that up on volume; we just cannot do it.

We must deal with the problem of eliminating the trade distortions that occur from officially subsidized export credit. So again, the first step is in the negotiating area, and I think that perhaps we have limited tools with which to deal. We frankly do not have much leverage, because we have put a ceiling on Eximbank, and that would be one very nice negotiating tool if we were not under such severe budgetary constraints. As I suggested, we should look at alternative financing devices that might result in budgetary savings while at the same time allowing us a greater competitive strength in order to insure a stronger competitive position.

Finally, it is fair to state that we have an obligation under U.S. law to be sure that our workers are not disadvantaged by subsidies, and that injury is not caused under such a circumstance. In the final analysis, we must comply with U.S. law and be certain that does not occur.

Mr. FRENZEL. With respect to that, can we use section 201 to attack subsidized financing?

Ambassador BROCK. Section 301, I think, is the preferred route.

Mr. FRENZEL. OK. And do you expect that such use of the statutes might be contemplated? I assume you would prefer to negotiate out some conclusions with our trading partners.

Ambassador BROCK. Negotiation is a better way to do it. However, negotiations should not preclude or substitute for or restrict in any way the use of U.S. law.

Mr. FRENZEL. Getting back to your statement with respect to expanding our potential under Eximbank, I know you have been interested in this since your Senate Banking Committee days, and there have been suggestions about going from a unified budget which scores every loan as an expense to going to a subsidized interest system which would reduce the impact of a similar amount of borrowing on the budget for that particular year.

There has been some strong congressional interest in this, and I realize there are a lot of voices to be heard from in the administration. But I am wondering if this is not a fruitful area for us to investigate.

Ambassador **Brock**. I would like to explore almost any such option. There have been submissions to the Congress of legislative initiatives suggesting a 1-year direct appropriation for a subsidy. That is one way to look at it. We might also consider in the short term a substitution of direct credit subsidy on a continuing basis for about 3 or 4 years as an alternative to direct loans.

I am hopeful that we will not walk away from the problem; we will not just let it lie where it is. We need to spend a lot more time talking to each other and exploring what would be the best.

We all know we have a budget problem. We cannot add more expenditures, but maybe there are different ways of financing that would address the budget problem at the same time they address the competitive need problem.

And we really do have a competitive problem, Congressman. I cannot tell you how many times around the world I have seen U.S. businesses losing business because we are not being given a chance to compete. It is a very tough problem.

We have some awfully fine people at the Eximbank, but they are operating under severe constraint right now.

Mr. **Frenzel**. Thank you, Mr. Ambassador. I do not want to impose on the other members. I do have some questions. I thought I might just ask one for the record before passing the baton here. And that is about the 301 case of the U.S. flour milling industry against the European Community; and I do not want you to answer right now, particularly because there is a special regional interest to me; but perhaps for the record we might let the committee know exactly where that case stands and how we are moving forward with it.

Mr. Chairman, I yield whatever is left of my overextended time, but I would like to get a chance to question later if possible.

Ambassador **Brock**. Let me give you a quick answer to that just so you know where we are. In September, we decided to proceed to GATT dispute settlement on the wheat flour case. Under the subsidy code, we requested consultations with the EC under article 12.3 of the code. Consultations are being held in Geneva today. If these are unsuccessful, we will request a conciliation, and if that fails, we will request review by a GATT panel.

We are proceeding actively on the case. We intend to see it through.

Mr. **Frenzel**. Thank you, Mr. Ambassador.

Chairman **Gibbons**. Mr. Jenkins.

Mr. **Jenkins**. Thank you, Mr. Chairman. Thank you, Mr. Ambassador, for your statement.

I want to utilize my time in getting somewhat parochial in a couple of areas if I may.

As you are aware, a coalition of 12 or 14 poultry trade groups, including 2 or 3 from my area, recently petitioned your office to seek relief from a trade-distorting practice as alleged by them; and that is, the European Community subsidies on poultry meat exports.

The information I have and they allege is that the EC countries last year spent over $100 million for such subsidies as a part of its common agricultural policy, and these subsidies are causing, obviously, a considerable concern throughout the entire poultry industry in this country.

So could you tell me first of all, if you are in a position at this time, what action does the Government expect to take in response to this practice?

Ambassador Brock. Congressman, we have reviewed the petition very carefully. We believe there is sufficient merit to the case to begin the investigative process, and we will do so this week.

Mr. Jenkins. You do intend then to accept the petition and commence with an investigation?

Ambassador Brock. Yes, we do.

Mr. Jenkins. In that regard—and I do not know that you will be able to respond to this—but I have read recently that some EC officials regard this agricultural policy, the common agricultural policy, with particular reference to the export subsidization programs, as immune from challenge under the subsidies code on the basis of informal agreements made between the U.S. and the European Community during the MTN.

Are you familiar with any of those?

Ambassador Brock. No, sir, I am not.

Mr. Jenkins. Let me get to one other area during my time, which is familiar ground for me, as you know, in the textile area. Textile and apparel imports to the United States have been growing faster than the market has been growing according to the figures I have.

I am well aware of the strong position that the President took prior to his election in a letter to Senator Thurmond where he made a statement that he would make sure that the 2½ million jobs in this industry would remain in this country, and he would work to strengthen the MFA by relating import growth from all sources to domestic market growth.

Now, according to some press reports, the administration's MFA proposal in Geneva would allow the United States to take special action against particularly troublesome exports from a few major suppliers.

I do not understand, first of all, how limiting some of the shipments of just a few suppliers is going to meet the commitment of relating import growth from all sources to the domestic market growth.

Are you in a position to comment on that?

Ambassador Brock. Yes. First of all, as you know Congressman, I have almost a unique position in the sense that I have a dual responsibility to both the President and the Congress. International trade is a delegated duty from the Congress under the Constitution, and I am very aware of that fact. But I should say very clearly that I also follow the instructions of my boss. And the President stated his position with absolute clarity last year several times, and I have a mandate. The mandate is well understood, and we are pursuing that as the goal of our negotiating status.

If you look at the history of imports in this particular industry or industrial sector, the overwhelming majority has come from approximately three major suppliers that are very developed and very competitive in this field. Our own best judgment is that we are going to have a successful renewal on the MFA. The MFA does constitute an important tool for us because it is the authority by which we then can negotiate in bilateral negotiations. We must have the MFA as the authorizing international agreement.

In order to have a successful renewal of the MFA, we have to understand that there must be gradations of approach between differing countries. We are trying very consciously now in this administration as a matter of policy to maintain as much opportunity in all areas for the smaller countries and the new entrants to the process as we can. If we are going to do that, there must be fairly severe constraints upon those that are fully competitive.

What we have suggested in MFA as the U.S. position is a gradation of approach which makes a distinction between those countries that are competitive and those that are new and small entrants to the marketplace. If we are successful in this approach—and I think we will be because the United States is so important to the ability of these nations with such disparate views—we can move well in the path that the President suggested a year ago toward maintaining the strength and the competitive opportunity for domestic industry to compete fully and without fear of being displaced by inequitable competition.

Mr. Jenkins. I appreciate those remarks. I was a little more concerned when I read last week in the Washington Post a statement by Secretary Regan reporting on the Cancun Conference, where he said the United States will be prepared "as time goes by" to discuss a liberalization of the Multifiber Agreement which restricts textile imports. And I did not know whether or not that signaled a different approach by the administration or not or whether we are going to be able to depend upon the assurances that we were originally given.

Ambassador Brock. The President sets the policy, Congressman, and I am informed that that was not an accurate quotation from the Secretary. I do not know precisely what he did say, because I have not had a chance to talk to him. But I am advised by his agency that that is a misconstruction of what he said.

Mr. Jenkins. At any rate, the administration intends to work to strengthen the MFA by related import growth from all sources to the domestic market growth in this country, is that correct?

Ambassador Brock. We intend to strengthen MFA. The second part of your statement would have to go to the bilateral approach.

Mr. Jenkins. I was relating to the President's letter. I read from his letter. He said, "The MFA expires at the end of 1981 and needs to be strengthened by related import growth from all sources to domestic market growth." Those were not my words; those were his. That is the reason I chose those words. [Laughter.]

Ambassador Brock. I am quite aware of that. We are in agreement on the objective. My own approach has been to strengthen the MFA in order to allow us to reach that objective through the bilateral process.

Mr. Jenkins. I appreciate very much your being here. I would like to pursue several other questions, but a lot of other members have questions. And I do not want to only talk about poultry and textiles, because I realize there are a lot of other areas we need to get to.

Thank you very much.

Chairman **Gibbons**. Mr. Brodhead.

Mr. **Brodhead**. No questions, Mr. Chairman.

Chairman **Gibbons**. Mr. Pease.

Mr. **Pease**. Thank you very much, Mr. Chairman.

I would like also to welcome our witnesses.

Ambassador Brock, a fundamental basis for a trade policy and of the international trading system generally under GATT for the past 35 years has been achieving and maintaining the MFN principle of nondiscriminatory trading treatment.

In recent years we have seen a tremendous growth in preferential bilateral and regional trade agreements among and between developed and nondeveloped or developing countries. We have long been concerned about the growth of bilateral arrangements and commitments among foreign countries. And yet there now seems to be some appearance that our own approach is moving in the direction of bilateral negotiations with our major trading partners as well as with developing countries.

Could you please comment on this apparent erosion of the MFN principle?

Ambassador **Brock**. I have expressed, as I think you know, some concern about creeping bilateralism, as a derogation of the basic principles of the MFN and of the GATT. We must be cautious about condemning such arrangements across the board because some are trade enhancing and some are trade limiting. It is with regard to the latter category that I would express concern.

If we can find a way to expand trade through some of these relationships, it is to our long-term interest to do so. By expanding trade, we can increase the commitment of other countries to the trading system itself which allows for such progress to be made.

Let me give you an example. One of the exceptions that is allowed under the GATT is the generalized system of preferences, which we practice in this Nation. It is a very important program for us to help developing nations by providing them preferential access duty free to the U.S. market.

As I said in my testimony, if you look at what this country has done for the Third World in recent years by keeping our markets open to their products, 51 percent of all that they sell to us comes in duty free now. They are our largest trading partner. We do more business with the Third World than we do with Europe and Japan combined. What we have done for them is to give them a chance to achieve economic growth by earning their way. Buying their products is good for us and it is good for them. As their economies develop, they become better markets for us. And we have to keep our markets up.

But that is not a disadvantageous bilateral arrangement; it is a very advantageous one. So we must make that conscious distinction. Your point is well taken that we have to be very careful that we do not walk into the other side of the problem and begin to allow more relations of a disadvantageous type.

Mr. **Pease**. In terms of the disadvantageous types, would you agree that there appears to be a trend on the part of our own nation to pursue more bilateral agreements rather than going to a multilateral basis?

Ambassador **Brock**. No; I do not think so.

Mr. **Pease**. You do not think so?

Ambassador **Brock**. No; I do not know what example you would use to demonstrate that we are doing more than we used to. I think we are probably doing less.

Mr. **Pease**. The examples that I have been given were in relation to Japan, Mexico, Canada, the European Community. Perhaps those fall in your definition of advantageous. [Laughter.]

Ambassador **Brock**. Some do. But let us take one of the more intractable problems we have. That is the problem with Mexico. The problem with Mexico is that Mexico does not belong to the GATT. They made a decision in their own government for their own reasons, and they have every sovereign right to make that judgment that it was not in their interest to belong to the international trading system.

I wish that they would. I think it is in the world's interest and Mexico's, in the long term, for them to participate. But when they decided not to, we then lost any normal dispute settlement mechanism that we had to set up a bilateral process.

Secretary of Commerce Baldrige and I cochaired this process with Secretary Vega on the Mexican side in order to have some basis for recognizing trade, and the hazard of recognizing disputes. I do not think we had any choice, because they consciously chose not to belong to the international system. I do not consider that an aberration. It is an acceptance of reality.

Mr. **Pease**. Thank you. Finally, my colleague from Georgia mentioned what I think he called the slightly parochial issue of textiles, the pillar of the economy of his part of the country. One of the pillars of the economy in my part of the country, as you know, is automobiles. Can you give us, give me, a current report on where we stand with imports of automobiles from Japan and what you see as the ultimate goal over the next year or year and a half?

Ambassador **Brock**. Yes. Under the Japanese decision to constrain imports to approximately 1,850,000 units, as we would count them, or 1.7 million, as they count them, they have the option to appraise estimated market growth for next year and to ship an additional 16.5 percent of that additional estimate. If we assume that domestic sales would be up half a million units next year, then they could add approximately 82,500 units of automobile sales to the base level of their 1.7 million units. That estimate has not been made yet. We will be consulting with them on whether it is, in fact, valid.

So far this year they have obviously complied fully and very consciously with their stated objective. My own belief is that they will probably not be able to sell as many units in this country as they were allowed to sell, not because of a lack of effort but because the interest rates in this country are so high.

I found it astonishing to learn last week that the largest Japanese automobile dealer in this area is offering a $1,000 discount on new model cars. I have never seen even a U.S. manufacturer do that. They are having trouble competing in this market, like everybody else. No one is selling any cars. The basic problem is we have to get our interest rates down.

Mr. **Pease**. Right. Thank you very much.

Thank you, Mr. Chairman.

Chairman **Gibbons**. Mr. Brodhead.

Mr. **Brodhead**. Thank you, Mr. Chairman.

Mr. Ambassador, on the same topic, the question of automobiles, I am concerned about the countries which have the local content requirement, such as Mexico, Brazil, and others. One of the effects of that, of course, is to take supplier production, parts supplier production, out of the United States and put it into those countries. And as I am sure you are aware, there are probably three supplier jobs in the auto industry for every assembly job.

So it is a much bigger industry than just General Motors, Ford, Chrysler, and American Motors. It is a much bigger industry, and we seem to be losing an awful lot of jobs because of these content requirements that other countries have.

Now, what sort of a strategy do we have to combat this? It seems to me that ideally everybody ought to have—the world market ought to be open. And it is not. We are the only country that really does not, the only country with an auto industry that does not protect it in some kind of way. And yet we allow other countries to, in effect, steal our jobs by imposing, such as Mexico does, a local content requirement.

Ambassador **Brock**. I do not know how I can add to what you have said. You are absolutely on the mark. It is a problem that is not only serious but growing more so. It is frankly becoming a common practice in areas beyond automobiles now.

One of the complaints that has been made about Canadian practices under the Foreign Investment Review Authority or the Canadian national energy program is the possibility that performance requirements or export requirements would be mandated into investments made in that country. Mexico clearly has a very strong policy in this area. Several countries do.

I do not have a very good answer. We are going to try to bring the issue before the GATT ministerial-level session next year. We are encouraging other nations to join with us in expressing some concern about the area, because ultimately, it is going to have a severe worldwide impact, not just on us but on all trading nations. If such problems continue, damage will be done to that which we are trying to achieve.

Mr. **Brodhead**. You are the expert in this area. How you work these things out, of course, is very difficult for an elected official—and you have had that experience—to go back to one State district and say, "Well, the Ambassador said we are going to negotiate on this thing maybe next year. We are working on the problem." Is there not something, is there not precedent really for some stronger, more direct action, perhaps legislation, which would call for us to respond in kind to this sort of activity?

Ambassador **Brock**. Ambassador Smith tells me that the only one we have right now is article III of the GATT. But that does not work very well with the case of Mexico, which is not in the GATT.

Mr. **Brodhead**. Right.

Ambassador **Brock**. You have a different problem.

Mr. **Brodhead**. I was just looking at the list here. Brazil has a 95 percent local content requirement. And, of course, they are growing auto suppliers, as you know. Mexico has 50 percent; Venezuela, 51; South Africa, 66; Spain, 63; Argentina, 96; Australia, 85 percent. That is just some of them.

It is pretty rough for the American auto manufacturers if they have to do business in these countries that want to do business here and you, and I, and everybody want to encourage them to do business in Mexico, to sell their cars in Mexico. But the price of that is that they have to take American jobs with them.

I do not think that these countries have a legitimate concern now. They may have a concern that Japan or some other country is going to come in and take over their auto market. I do not think, given the price of oil in the configuration of American cars for better or for worse, we are not really about to take over the market with assembled cars in these countries. But we are competing as suppliers.

American industry, as you know, has a difficult enough time, the auto industry particularly, competing on a level field. They are trying to catch up, but they frankly have a great deal of difficulty competing on a level field. In these lists of countries, the field is not level.

I am just wondering what we can do consistent with the administration's commitment and our commitment to cooperatively working with our trading partners and working for open and freer trade? What strong action can we take consistent with those commitments?

Ambassador BROCK. I have served in both this and the other body, and I have some sense of the frustration that exists in the Congress. Every time a new administration takes office, obviously the new administration wants to try to settle things amicably before they go out with a 2 by 4. That means at least once every 8 years, and it has been every 4 for the last decade Members of Congress suffer the agony of waiting for the administration to do something in the first year. I respect your problem, and I understand it, as a politician.

Obviously, we would prefer to negotiate an international arrangement of some sort to reduce this practice. We do know that it is prohibited by the rules of the GATT. We also have some devices, in terms of domestic legislation, but they are limited, particularly in regard to local performance requirements as opposed to export performance requirements. Local content is one problem. Export requirements is another problem.

It is relatively easy to deal with the export requirements in the one sense, but both of them are nontariff barriers that are very difficult and, frankly, were not envisioned when we began writing the earlier rules.

The pertinent paragraph under article III of the GATT is rather specific. It says:

> No contracting party shall establish or maintain any internal quantitative regulation relating to the mixture, processing, or use of products in specified amounts or proportions which requires directly or indirectly that any specified amount or proportion of any product which is the subject of a regulation must be supplied from domestic sources.

It is very clear, and it does not deal with Mexico, but it does deal with some of the other countries. If we are unsuccessful in our negotiating effort, then we will have no choice but to go to GATT.

Mr. **Brodhead**. I urge your continued attention to this issue.

Mr. **Pease**. Would the gentleman yield?

Mr. **Brodhead**. You have got it.

Mr. **Pease**. You read them the agreement, which is perfectly clear. It makes it perfectly clear that these local content laws are not consistent with GATT. Is it perfectly clear what our remedies are if we have four or five nations which the gentleman from Michigan has specified, which are clearly in violation of GATT by their own admission? Is there not some immediate remedy we can get from GATT? Or is it a matter of informal negotiations stretching out over a period of years?

Ambassador **Brock**. It could take quite a bit of time. The process starts with consultations. If that fails, the parties move to conciliation. If that fails, you go to a panel, and ultimately it can be resolved by the contracting parties. But then the enforcement mechanism is somewhat limited. So it is not a perfect answer.

Mr. **Pease**. Have we started down that road at all? You list a series of steps to be taken. Have we taken even the first step?

Ambassador **Brock**. We have, internationally, in terms of the opportunities under U.S. law for section 301 petitions. But the industry has not seen fit to file a petition at this point. That is an option that they might consider. I do not know whether it would be productive or not. It depends on the merits of the case.

Mr. **Pease**. What about local content legislation of our own, would that cause the trading partners to think twice about what they are doing?

Ambassador **Brock**. I do not know how we can encourage others to comply with the code if we constantly engage in violations of our own, and that would be in violation. Frankly, it will come back to injure us. It may be that one day in one country after another, we find out the price that this involves.

It is a very expensive way for these countries to try to do business. Their consumers are paying a horrible price for the practice. There is a question of whether or not they can have real economic growth if they continue to intervene in a negative fashion in a market system. We have no legal authority to tell them what they should do as a sovereign nation, but their consumers might.

Mr. **Pease**. Thank you very much.

Thank you, Mr. Chairman.

Chairman **Gibbons**. I am glad we have spent some time discussing this subject, because I have some very definite views on it. I might as well express them here right now.

Mr. **Brodhead**. How unlike you, Mr. Chairman.

Chairman **Gibbons**. In the overall picture, we have pretty much gotten under reasonable control matters of formal tariff barriers, quantitative restrictions, and ad valorem taxes. But it looks to me that as we get them under control, this whole area of nontariff barriers has exploded. Despite the progress we made at the MTN in negotiating them, so far the results have not proved to be very effective.

Now, I realize that a part of that is going to be not only Government's interests in enforcing the MTN rules but in industry's interest in enforcing the MTN rules. So I would encourage industry if they have a real complaint, whether it be an industry or a labor union, to exercise it. And if we find then that in the exercising of it we get insufficient solution to the problem, then I think the Congress ought to strengthen it.

I have a great abhorrence to these local content requirements by other countries and export performance requirements by other countries. And if we cannot negotiate something with them pretty quick, I am willing to tighten up our own laws so that we can take action against them. I have no interest in whether Mexico becomes a member of GATT or not. That is its own sovereign decision to make.

But I want to make it clear I do not want Mexico to hide under the rubric of not being a member of GATT and get any special treatment because it is not a member of GATT. I do not want them to get the advantage of an injury test under our countervailing duty law just because they are a neighbor.

All neighbors have the duty to be good neighbors. We want to be good neighbors. And we should not reward neighbors differently than we reward somebody on the other side of the street, or down the road a block, or around the world.

I hope it will be the administration's policy in dealing with our neighbors that we want to be fair with them; we want to be neighborly with them, but we do not want to give them any special advantage just because they plead a disability of not being a member of an international organization.

I hope that in all of the 301 cases we have that you all will vigorously pursue them and this whole matter of subsidies, and local content, and export performance requirements.

I assume, by your silence, that you agree with me, Mr. Ambassador.

Ambassador BROCK. That is a fair statement, Mr. Chairman.

Chairman GIBBONS. All right. Good. We are going to get along real well. [Laughter.]

Mr. FRENZEL. Would the gentleman yield?

Chairman GIBBONS. Certainly.

Mr. FRENZEL. The gentleman was as specific as I would like to be about the injury test in Mexico. In my judgment, the Department of Commerce made a ridiculous ruling in giving the injury test on what has proved, I hope, to be an unimportant and unprecedent-setting case.

But I wanted to make it very clear that there was a record on the books where we did something for reasons unbeknownst to me. It was clearly contrary to what I consider to be the trade policy of this country. And the Department of Commerce, if it is around, ought to be warned that this subcommittee and others are certainly watching them and expect no repetition of that counterproductive policy.

Ambassador BROCK. I think, Congressman, that it was stated at the time and subsequently that the case did not constitute any precedents at all. It was a unique decision based upon the understanding of the law in that precise instance. The matter is now before the courts, so I do not think any of us can comment on how it might be resolved. I am confident that the Commerce Department is aware of your concern.

Chairman GIBBONS. Now, Mr. Ambassador, I want to talk about export trading companies, not just because it is one of my bills, but because I think it is necessary that we do something about that in order to get our country in a position in which it can trade competitively throughout the world. What is the administration's position on the export trading legislation now pending in Congress?

Ambassador BROCK. We are vigorously and actively supportive and hopeful that it will be enacted in this calendar year before the Congress leaves for Christmas, Mr. Chairman.

Chairman GIBBONS. Yes, sir.

Ambassador BROCK. It is irrational for this country not to provide its medium and small businesses the chance to compete in the international marketplace. They are our most productive producers. They are competitive. They are tough. And we deny them a reasonable opportunity to be competitive internationally, because we try to extend our laws internationally rather than encouraging them to work cooperatively in trade wherever they can find a market.

I hope that bill will pass just as quickly as possible. There is some movement in the House now. I do expect to see the chairman of the House Banking Committee today on this very matter, and I very much hope that the Judiciary Committee will expedite its process and move legislation along.

It does not make sense. The export trading company legislation has been around for more than 2 years, as you well know. It passed the Senate last year. It died in the House. It passed the Senate again this year. I do not know of anyone in the business community, exporting or not exporting presently, who is not supportive of it. I know of no major objection to the concept. I pray it will be enacted speedily, and I appreciate very much your support.

Chairman GIBBONS. Let me ask you, who in the administration is responsible for the lobbying on that? We are getting down to the nitty-gritty. You have been in the House and the Senate. You know that these things when they run into trouble, you have to have some pressure applied. Who is applying the pressure?

Ambassador BROCK. The Commerce Department has the lead role, at their request. I have talked to the Secretary and offered to do whatever I could in recent weeks and am proceeding to do so. We will be as active as we can.

Chairman GIBBONS. I do not want to criticize Commerce, because I do not know what they are doing. But frankly, I do not know why this thing has not moved. It has passed the Senate twice unanimously. It was vigorously debated over there.

It is not one of those bills that just kind of went through when there was nobody on the floor. But I am not aware that there is any particular drive on by the administration to get the export trading company bill passed.

I hope I am wrong, but I hope whoever is in charge of their lobbying will make themselves known to me and will tell me what they have done to get it passed, what the rest of us can do to get it passed, because I think it is essential that we get in step for what is ahead of us.

Mr. Frenzel. Mr. Chairman, I am going to have to leave. I know the gentleman from Georgia has some questions. May we have unanimous consent to submit those questions?

Chairman Gibbons. Certainly. You and I have a luncheon engagement in 10 minutes, too. Do you remember that?

All right. Let me ask you now about export administration and those cases. I realize that you do not directly handle the Export Administration Act, but, as I say, you are our chief person on trade in the administration. Every place that we go overseas we run into complaints by American businessmen that they have trouble with the Corrupt Practices Act and the Export Administration Act.

Is there any particular effort going on by the administration to try to straighten out these laws?

Ambassador Brock. Yes, sir; on the export administration we have worked very consciously to create a workable administration position. One of the problems, however, is that we as a country cannot unilaterally adopt a policy with regard to sales to the Soviet bloc. We must do that in consultation and in cooperation with our allies; otherwise, we simply restrain the United States but no one else.

Chairman Gibbons. American businessman after American businessman overseas has told me that all of our laws, the interpretation of our laws, the application of our laws, as far as exports are concerned, is much more strict than are other people's who are engaged in the same operation cooperatively about not selling things to Communist nations.

Either we are being used or we are being fools, or else I am not properly informed about what the status is, because I guess in the last 8 months practically every other American businessman I have seen overseas has complained about our administration of these laws. They say that other countries can get approval faster and are much more generous in the interpretation of these restraints than we are.

Has the administration conducted any kind of investigation, or do you contemplate any kind of investigation or any kind of consultation with our trading partners in this area?

Ambassador Brock. Yes, sir; the analysis of the business community is correct, in my judgment. We have had extensive discussions within the administration. We will be meeting within the month with our trading partners to develop or evolve a more precise, understandable, and workable formula for the approach. If we can reach an agreement, then I believe that we can establish a much more coherent U.S. policy with a much faster response time.

Chairman Gibbons. Do you feel that is your responsibility as U.S.T.R. to do this, or is it somewhere else in the administration to push this? I am just trying to fix responsibility. I am not trying to fix blame. I am trying to find out what you feel really is the concept of your job.

Ambassador Brock. I personally feel a very strong responsibility to press for resolution on the matter. The administration of the law is not within my direct jurisdiction, but the trade complications that do occur therefrom do impact upon our trade position, Mr. Chairman, and therefore I have to be involved.

Chairman GIBBONS. Now, I have the same sort of views about the misnamed Foreign Corrupt Practices Act. Nobody advocates corruption. A few practice it, but nobody advocates it. We apparently have shot ourselves in the foot with that law. There are efforts afoot in the Congress to try to straighten that out.

What is the administration's position, and what is being done about it?

Ambassador BROCK. The administration's position is to actively support modification and improvement of that law. The primary concern that we have with the FCPA is that it is so well-intended and poorly written that it creates far more confusion than anything else.

The net result is that companies around the world have withdrawn from doing any business at all with certain countries because they do not understand the law, do not know how to comply with it, do not know which agencies to get answers from, cannot get any answers from the agencies that administer it. The language of the law needs to be changed. It is an exercise in futility.

Chairman GIBBONS. Now, who is responsible in the administration for doing the lobbying and for doing the work to get this thing straightened out?

Ambassador BROCK. I am primarily working in the area. We have made a great deal of progress in the Senate. We have been a little distressed that reform legislation has been stalled by other business on the Senate calendar, but we are pleased that the bill was approved by the committee by a very substantial majority. We have a good workable, enforceable bill.

You have pointed out that neither the Congress nor the administration has any interest whatsoever in condoning bribery. But if we are going to prohibit bribery of foreign officials, if we are going to stop the practice, let us do it in a fashion that does not have other negative impacts that are far more deleterious to our well-being. The present FCPA does have those negative impacts.

We have rewritten the law so that it is understandable, workable, and enforceable. The Senate version, S. 708, will do that. We expect passage in the Senate, within the next month, and when that occurs, I would hope that some movement will begin in the House.

I have talked within the last 24 hours to the chairman of the House Subcommittee on Telecommunications, Congressman Wirth, and encouraged him to move. He is presently holding only oversight hearings on the bill, feeling that he would like to educate himself and his committee on the FCPA, and how it is working, before he actually takes up any particular legislation.

I do not know how long it is going to take, Congressman. We have a good constituency of people who want change, and many Members of Congress who are ready to see the act changed. We have had difficulty in getting a hearing scheduled in the House.

Chairman GIBBONS. You know, I look at the 113 people that you have on board and all of the problems that you have to wrestle with. I know that you have access to other people. But I would urge you to urge the President, as soon as he gets through his AWACS problem, to put some pressure on these areas.

I realize we constantly have budget problems, and that is always going to be a very high priority with the administration. But it looks to me like the trade matters, the export trading companies, the ones we have just discussed here about export administration, and the misnomered, misnamed Foreign Corrupt Practices Act, have just not received the amount of determined effort that I think they are going to need in order to get the work done.

And all the time, we are penalizing ourselves. We are penalized in the trade picture enough. I should not say with the overvalued dollar, but the highly valued dollar. It is going to hurt us real badly in the merchandise area. We are going to have political fallout from that, and I would like to see us get moving on export trading companies, on better administration of the Export Administration Act, and on the Foreign Corrupt Practices Act just as quickly as possible.

Ambassador BROCK. Mr. Chairman, all I can say is you have my own personal best efforts and, those of the administration. I am honestly aware of the problems that you cite. You are absolutely right. It is very difficult for us. You mentioned the fact that we have 113 employees. We are now at the point where we are trying to help specific countries with specific license applications, just to expedite the process. That should not be our responsibility, but somebody has to do it, and we are going to try to be helpful.

The most important step we can take is to clean up the policy area and make a decision and then live within the parameters that are established, whatever they are. All our business people are asking for is a yes or no answer. And today they cannot get it in either of these areas.

Chairman GIBBONS. Let me ask you a little bit about the Caribbean Basin policy. Personally and philosophically, I am an MFN man, but I realize we have a special obligation in the Caribbean Basin. We have a group of small islands isolated, largely isolated economically and geographically. What do you feel that we are going to be able to do in the trade area for these people?

Ambassador BROCK. We have spent a great deal of time wrestling with this problem. The problem is we are now giving these countries duty-free access for 87 percent of all they now sell us. So that the GSP does not offer a great deal of additional opportunity. There are certain things that we can do with agricultural stations, inspection stations and things of that sort, which would expedite and facilitate their ability to do more business with us. But some of the problems are in particularly difficult areas. Textiles is one, to get back to Mr. Jenkins point.

We must be sure that what we do is not only beneficial to them but is within the framework of U.S. trade needs on our own part. We are going to be very helpful if other complications do not bar us from achieving results or counterweigh the results.

You are well aware, Congressman, of the sugar legislation and what that would have done to the Dominican Republic. The impact of that bill on the Caribbean would be greater than all of the trade benefits that we have been able to dream up under all the approaches we could envision in the Caribbean. We must be fairly constrained in answering your questions at the moment until we see what the final results of the farm bill are, among other pieces of legislation.

But we have begun to evolve with the Caribbean nations, as we do not want this to be a U.S.-imposed resolution, a fairly constructive trade, investment and aid package that uses each of the three components in a complimentary fashion.

The Caribbean Basin Initiative is going to be an important program where it is within our power to open up our markets even more aggressively to these nations and to provide them with greater economic opportunity than they now have. Otherwise, the Caribbean is going to be dependent upon aid, and aid is not going to solve the problem. It simply cannot.

Chairman GIBBONS. I would say to you, in closing, the time is short, that we visited Jamaica. I want to applaud the fine job that Prime Minister Seaga is doing or attempting to do in his country down there. He has reversed a political slip and an economic slip that has been remarkable in its reversal.

But some kind of sympathetic effort, effective sympathetic effort is going to have to be extended to those countries. I look at the Caribbean, it is a source of a lot of social and economic problems in this country, social and economic problems caused by emigration, social and economic problems caused by importation of narcotics.

I think we have a duty and requirement to ourselves to help those countries in order to alleviate the kind of economic conditions that exist there. I realize that the tools we have are very limited, but we are going to have to employ them as generously and vigorously as we can.

Ambassador BROCK. I could not agree more.

You may have seen the statement I made in the paper, that illustrates the dilemma. I was quoted recently as saying, "I am not sure we have time to hurry." I said that consciously in the sense that we have so many times in the last several decades made great promises, great announcements, only to dash their hopes anew. I just do not want to do that to those people again.

Chairman GIBBONS. I agree. I agree.

Ambassador BROCK. We must be very cautious and understate what we think we can accomplish and do it carefully and do it right.

Chairman GIBBONS. Mr. Jenkins.

Mr. JENKINS. Thank you, Mr. Chairman.

Mr. Ambassador, I am going to submit some additional questions that I had prepared, since time is of the essence. But I do want to ask a couple of questions following up on some of the questions that Mr. Frenzel asked, and also the chairman.

I, too, have some concern with different agencies performing parts of functions of one overall program. For instance, in the bilaterals, your office does the negotiation, and as I understand it, the Commerce Department then really is in charge of implementation of the entire program.

In view of the administration's position on the textile area as far as growth related to the market here, do you see any problem with the Commerce Department in implementing the bilaterals that you have ended up negotiating?

Ambassador BROCK. No, sir, I do not.

Mr. **Jenkins**. Do you think they will be very vigilant in the implementation of the language?

Ambassador **Brock**. I certainly do.

Mr. **Jenkins**. Let me ask you this one final question in that regard. In the textile field, the press recently reported that the administration doubts that the MFA can be renegotiated by the deadline of December 31 expiration date. In light of the absence of a European Community negotiating position and increasing pressure within the EC to delay any new agreement pending renewal of their bilateral restraint agreements, and as you know, this Congress made the MTN tariff cuts on textile products contingent upon a continued MFA or some equally effective program of import restraint.

Now, if the MFA fails this year, how does your office and the administration plan to meet the congressional requirement?

Ambassador **Brock**. First of all, we expect and believe that the European Community will have its mandate well before November 18 when we begin the final round of negotiations. Any statement that indicates we do not expect the MFA to be renewed this year is not accurate. We insist that it be renewed this year. We will actively pursue that goal and bring as much pressure on the process as is necessary to see that it is renewed by all parties. We do not view any one group as being a barrier, but there are wide divergences in the approaches of other countries.

But to address the real point of your question, if that particular arrangement is no longer available to us, we could still have an agreement with enough countries to constitute "a suitable arrangement" as the law requires. We could have enough arrangements with producers to constitute what we would describe as "a suitable arrangement" and still be authorized to conduct bilateral discussions, even if one major consumer did not participate.

Such a situation would not be in our interest, and we do not intend for that to happen. But we do have some flexibility under the law to cope with the situation, were that to occur for any reason.

Mr. **Jenkins**. One final question. In the major suppliers that you talked about earlier in the textile field, do you consider China to be a major supplier at this point?

Ambassador **Brock**. It depends on the product. In most areas, no, but in some areas, very clearly, yes.

Mr. **Jenkins**. They are becoming a major supplier in the textile field now, is that correct?

Ambassador **Brock**. It is growing very rapidly.

Mr. **Jenkins**. Thank you, Mr. Chairman.

Chairman **Gibbons**. Thank you.

We thank you, Ambassador Brock, for your very fine answers and for your presentation.

I have some additional questions on which I would appreciate your Office supplying answers for the record.

[The questions and answers follow:]

Question. How do you reconcile your Congressionally mandated authority with the role of the administratively created Cabinet Councils?

Answer. The United States Trade Representative (USTR) is the President's principal advisor on international trade policy. The USTR has statutory responsibility for developing international trade policy and coordinating its implementation. This mission is carried out with the advice of the interagency Trade Policy Committee (TPC). The Trade Policy Committee is the top level of the interagency structure which advises the USTR on trade policy related issues.

By contrast, the Cabinet Councils are designed to operate as subgroups of the full Cabinet. Each Cabinet Council is chaired by the President. At the same time, each Council has a Department Secretary as chairman pro tempore who guides the direction of the Council and serves as chairman of working sessions in which the President is not in attendance.

Question. How do the roles of other agencies fit in with your policy responsibility?

Answer. Under section 242 of the Trade Expansion Act of 1962, the President established an interagency trade organization to assist him in carrying out his trade responsibilities. This organization, as it has evolved, consists of three tiers of committees, administered and chaired by USTR. These include the Cabinet-level Trade Policy Committee (TPC), the Assistant Secretary level Trade Policy Review Group (TPRG) and the senior staff level Trade Policy Staff Committee (TPSC). This interagency organization is the principal mechanism for developing and coordinating U.S. Government positions on international trade and investment policy issues.

Question. Would you describe the respective functions and role of the Trade Policy Committee, the Cabinet Council on Commerce and Trade, and the Cabinet Council on Economic Affairs, particularly in terms of the circumstances in which trade related issues come before and are resolved by the Cabinet Councils.

Answer. The Trade Policy Committee (TPC), which is chaired by the USTR, is the principal interagency mechanism for developing and coordinating U.S. Government positions on international trade and investment policy issues.

The TPC mechanism allows for a decision-making process which is flexible in terms of level of policy development and implementation, and which provides for the participation of all Cabinet agencies.

As for the relationship between the TPC and the Cabinet Councils, it is understood that TPC issues requiring Cabinet discussion with the President will be reviewed in the appropriate Council with the President presiding. TPC recommendations not requiring such a discussion go directly from the USTR to the President.

The decision as to which of the Cabinet Councils an issue will be referred is coordinated with the Office of Policy Development in the White House.

Question. How do you account for the much more active role of the TPC?

Answer. The TPC is now playing a more active role as a reflection of the increased national priority of trade issues and the need of a new administration to develop basic trade policies, such as it did earlier this year with the White Paper on Trade. Issues of high national priority, having greater, more far-reaching effects, receive proportionately more attention, often with the need to be resolved at a higher than staff level.

Question. What has been the impact of its (TPC's) active role on the operation of the TPSC and TPRG; for example, do those groups only decide routine, non-controversial matters?

Answer. The TPSC remains as active as it has been traditionally. Approximately 90 percent of all trade issues are handled by the interagency mechanism at the staff level. The TPRG has become increasingly more active, as a consequence of the system operating as it was intended.

Question. The President's budget request to the Congress on September 30 to reduce fiscal year 1982 agency appropriations by 12 percent includes a $1.2 million reduction in the USTR budget request from $10 million to $8.8 million.

How will such a cut be reflected in USTR's operations?

Answer. The budget cut is reflected in the following areas: promotion freeze for all personnel, elimination of research budget, elimination of summer intern program, postponement of word processing and other equipment purchases, heavy cuts in travel, deletion of the printing of our annual report and "Preface to Trade", postponement of filling several current and expected vacancies, significant cuts in training and career development activities, reduced funding for data acquisition and for reimbursable details.

Ambassador Brock recently completed an internal reorganization which will allow us to maximize the use of available resources. We have tightened up controls of expenditures especially travel, overtime, and representation funds. We are using every means possible and all management tools at our disposal to increase productivity and effectiveness within our diminished resources.

Question. You are on record to the effect that it is U.S. policy to reward our friendly trading partners and treat countries who are not so cooperative less favorably. What effect does this approach have on the principle of most-favored-nation treatment?

Answer. I think it is fairly obvious that within the context of our international obligations involving the extension of most-favored-nation treatment, a certain amount of leeway exists within which we can differentiate in our treatment of our trading partners depending upon how they treat us. We will do so while at the same time respecting our international obligations.

Question. What agency is responsible for monitoring Japan's industrial goals and policies, and how do you plan to go about it?

Answer. Analytical work concerning Japan's industrial goods and policies which are likely to impact on Japan's position in the international trade system is being done in a number of different agencies and departments throughout the government, including the State Department, the Commerce Department, the Treasury Department, and the ITC. The U.S.T.R. trade policy formulation process is consensus oriented and draws on the expertise available throughout the Government. This Office undertakes both to initiate trade policy measures necessary to deal with specific trade problems as well as to act on suggestions provided both by the Congress and the various departments involved in trade issues.

Question. Could you please elaborate on your testimony before the Joint Economic Committee this summer in which you stated that we must prevent Japan from using its industrial policy of high technology promotion to destroy our high technology industries, in the same way that Japan swept over our radio, TV, auto, and other industries?

Answer. We are closely monitoring Japan's trade and industrial policies which affect Japan's export position in the high technology industries. Our objective in this area is two-fold; firstly, to improve U.S. market access for high technology exports to Japan; and, secondly, to ensure that U.S. high technology manufacturers in Japan are given equal participation opportunities in Japanese government sponsored R&D programs.

We have recently been successful in bilateral negotiations to increase U.S. market access in Japan for telecommunications equipment and semiconductors. The elimination of tariff and non-tariff barriers to U.S. high tech exports is a continuing objective in our bilateral negotiations. The importance of liberalizing trade in this sector in avoiding future bilateral trade crisis is an important focus of the U.S. position being put forward by Deputy USTR David R. Macdonald this week in the U.S.-Japan Trade Subcommittee meetings. By eliminating trade barriers and ensuring that U.S. exporters have the opportunity to become fully integrated in the Japanese high technology market and distribution system during their early stages of development, I believe the difficulties experienced in the radio and TV industries can be avoided.

With regard to the issue of government sponsored R&D programs, it is clear that both the U.S. and Japan have the right to sponsor such domestic programs to the extent that they are not designed to be used as a means by which to subsidize exports. It is worth noting that the government shoulders a greater share of R. & D. expenses in the U.S. than in Japan. We do not intend to continue to insist, however, that U.S. manufacturers in Japan be given equal opportunity to participate in these programs.

Finally, we are working towards a joint U.S.-Japanese commitment to meet in early 1982 to discuss the range of issues affecting trade high technology goods. Our goals in this initiative will be an important agenda item in the upcoming GATT Ministerial.

Question. If the Japanese target research, tax aids, and export promotion on a product such as robots, how, exactly, does the United States plan to respond? What is our response to plans underway for major Japanese government subsidies for private sector development of fifth-generation computers to compete with IBM?

Answer. As noted above, the Government of Japan shoulders a smaller share of R. & D. expenses than does the U.S. Government. It is our objective to make sure that U.S. manufacturers are not discriminated against with regard to participation opportunities in government sponsored R. & D. programs in Japan. Japanese high tech industries also benefit substantially from the low interest rates available on borrowed capital in Japan. It is an important goal of this Administration to bring interest rates down in the U.S., which together with tax incentives, we believe will enable our industries to undertake the investments necessary to remain competitive internationally. This would apply to robots as well as other U.S. products. Improvements in the relationship between business and government in conjunction with the removal of export disincentives will augment U.S. manufacturer's ability to compete in world markets.

Questions. What are the main trade issues and concerns of our major trading partners and to what extent do they coincide or conflict with U.S. issues and objectives described in your testimony? What U.S. trade practices are of greatest concern to our trading partners which they want changed or eliminated?

Answer. For the most part I believe that there exists a general convergence of views between our major trading partners and ourselves as to the major issues confronting the international trading system. While the specific manifestations of these central issues and their importance differ from country to country, they may be summarized as (1) the need to counteract rising protectionist pressures; (2) the necessity of maintaining and expanding open markets through increased access for foreign exports; and (3) the continued development of, and strict adherence to the accepted rules of the international trading system. These are all issues of great importance to the United States and they represent priorities for the trade policy in the Reagan Administrative, I believe that at this point in time the single development causing the greatest concern for our foreign trading partners is the threat of growing protectionism pressures in the U.S. market.

Questions. What are the major foreign barriers to U.S. services trade? What are the prospects for our gaining support for international regulations for this area given our large surplus in services trade?

Answer. The major problems we find in international trade in services are those which hamper or prevent the penetration or expansion of U.S. service industries in international markets; generally we refer to these as problems which affect the right of establishment. The specific form these problems take, however, may differ from industry to industry. For example, in aviation we find U.S. carriers encountering difficulty obtaining access to foreign reservation systems. In professional services such as accounting or legal services we find onerous licensing or personnel requirements. While these problems are different, the result is that they both restrict the access of U.S. firms to foreign markets.

While it is correct the U.S. has a sizeable trade surplus in services, we are confident our trade partners will support a multilateral effort on services. There have, in fact, been indications by several countries of strong support for our initiatives. Additionally, some preliminary work has been done in the OECD which is represented by 23 nations. We feel as more work is done in the services area the effort will enlist additional support. Those countries who are reluctant to actively pursue services trade problems have indicated to us that it is a matter of devoting the necessary resources.

International trade in services has been overshadowed by trade in goods. With the shift in trade toward services, nations are beginning to look at this area of trade. We believe once nations have had an opportunity to poll their service industries and educate themselves, they will realize significant problems do exist in international services trade that affect them detrimentally. We have attempted to "prime" this process by making available the list of problems U.S. firms encounter. Once this education process is completed, we feel we will be only one of a group of demandeurs for a services effort.

Before we arrive at a negotiating stage in services, a great deal of work will need to be done by groups of nations and by individual nations. Developing an awareness of the issues and problems which exist is the first step each nation must undertake. The data will need to be organized on a multilateral basis and we will have to develop a consensus on the solutions approach. At this time we are in the early stages of the services exercise and we do not find it surprising that the EC Commission does not have a significant amount of resources dedicated to services. As the services effort gains momentum we expect this situation to change.

With regard the LDC's, we have seen some countries, particularly ASEAN, express increased interest in a services effort.

Services will be on the GATT Ministerial agenda; however, it would be premature to speculate at this stage on the precise outcome of the services topic. Certainly a directed work program than can constitute building blocks for possible future negotiations would be a positive step.

Questions. Trade-related investment policies are a major issue for the 1980's. Right now a major issue are Canadian investment policies under the FIRA and NEP, the discriminatory aspects of which appear to be clear violations of the GATT national treatment provisions as well as having trade distorting effects for U.S. business. This issue has been under Government review since early last year and we have had numerous consultations with Canada with little effect.

Can you tell us what options have been under consideration and what policy decisions, if any, have been made for dealing with the Canadians on this problem. For example, there has been talk of bringing a GATT case on what seems to be a clear violation of the national treatment provisions of Article III. On the other hand, there have been press statements that the White House and State Department oppose a strong stance against Canada and Mexico in view of our overall *relationship*.

Why haven't we instituted even formal consultations under GATT let alone dispute settlement and doesn't the absence of our pursuit of our GATT rights affects the credibility of our overall position that there should be vigorous enforcement of GATT rules through the consultation and dispute settlement process?

Answer. As you are aware, we have been engaged in intensive, senior-level consultations with the Canadian Government regarding our concerns over certain aspects of the NEP and FIRA. We have seen a little movement on the part of the Canadians to meet some of our concerns. The November 12 budget presentation included a statement by the Canadian Government that the previously announced expansion of the FIRA mandate would be shelved for the time being, and that the NEP policies, including those to which we object, are not appropriate for other sectors. In addition, we have received assurances that there will be no coercion of major project managers to use Canadian goods and services.

Despite these recent assurances, we continue to have serious problems with numerous Canadian investment, energy and industrial policies. We are continuing to pursue our concerns at the highest levels of the Canadian Government. In the event our consultative approach fails to resolve our concerns, we are considering several options, including use of appropriate multilateral mechanisms as well as unilateral domestic action.

We have not yet brought any of these issues to the GATT because we do not want to foreclose our most effective tool for resolving disputes, bilateral consultations, until we have fully pursued our concerns in this fora. It is also important to note that not all of our concerns can be addressed in the GATT, thus we are pressing for resolution of all of our concerns in the bilateral context before pursuing other measures. We are committed, however, to instituting the appropriate GATT mechanisms if it becomes evident that the bilateral process has run its course.

Question. An international agreement on the use of import safeguards (i.e., open procedures and criteria for import relief measures) was sought particularly by the United States in the MTN but not achieved because of lack of agreement on what types of measures would be subject to the disciplines and whether and under what circumstances countries could apply relief on a selective basis against individual countries rather than MFN.

Would you describe what the status of discussions is on reaching international agreement, what our objectives are, particularly on coverage of such an agreement and on the selectivity issue, and what the implications of these positions are for our own application of import relief?

Answer. The United States continues to seek multilateral agreement on a Safeguards code, which should cover all actions that have the effect of protecting domestic producers from injury as a result of competition from imported products. Such actions would include, but not be limited to, those taken under GATT Article XIX.

Multilateral efforts to secure a Safeguards code, which were unsuccessful during the MTN, have failed to make significant progress in the post-MTN period. Following the MTN, a Committee on Safeguards was established to continue negotiations. The committee, chaired by Director General Dunkel, met twice in 1980 and again on April 15, 1981. Unfortunately, discussions in these meetings indicated that only the United States, the Nordics, and the developing countries are anxious to proceed with serious negotiations. Other major trading partners appear content to have the negotiations lapse and continue with the status quo.

In July, in an effort to rejuvenate the negotiations, the United States circulated a proposal to establish a permanent Safeguards Committee in the GATT. The proposed terms of reference of this Committee would allow it to receive notifications on any type of safeguards measure from any country. The U.S. proposal is designed to set aside final decisions on issues such as selectivity while facilitating further work on reaching a consensus on the form of a possible safeguard agreement. In light of opposition to the concept of a permanent committee, however, USTR is now considering revising its proposal to allow for the establishment of a work program in the existing GATT Committee on Safeguards and to place this work in the context of preparations for the 1982 GATT Ministerial. We will be discussing this proposal with other delegations in Geneva and, if the response is favorable, we will seek to schedule an early meeting of the Committee on Safeguards.

If the U.S. proposal is adopted, we would hope to make progress on developing a factual basis for serious negotiations prior to the 1982 GATT Ministerial meeting.

U.S. application of import relief is governed by our domestic laws and therefore not affected by current international discussions. Under current U.S. law, application of import relief is compatible with GATT Article XIX. Achievement of the U.S.

objective of bringing a broad range of safeguard actions under a multilateral system of rules would not necessarily affect U.S. import relief procedures. However, this is an issue that needs to be considered as a safeguards code is negotiated.

Question. What are the objectives of the developing countries in global negotiations with respect to trade?

Answer. Since global negotiations have not taken place, it is difficult to define the exact objectives of developing countries with respect to trade matters. At Cancun, participants addressed a wide range of problems during the discussion on commodities, trade and industrialization including the negotiation of commodity agreements, the Common Fund, protectionism, improvement of the Generalized System of Preferences, barriers to trade in agriculture, the Multifiber Arrangement, structural adjustment and aid for infrastructure projects.

Question. What trade issues is the U.S. willing to see included in the agenda? Where and how will the agenda be prepared and what is the timetable?

Answer. The United States has neither an agenda nor a timetable for global negotiations. In his opening statement at Cancun, the President outlined four "essential understandings" that if accepted would allow the United States to engage in a new preparatory process. The four understandings are:

"(1) The talks should have a practical orientation toward identifying, on a case-by-case basis, specific potential for or obstacles to development which cooperative efforts may enhance or remove. We will suggest an agenda composed of trade liberalization, energy and food resource development, and improvement in the investment climate.

(2) The talks should respect the competence, functions and powers of the specialized international agencies upon which we all depend, with the understanding that the decisions reached by these agencies within respective areas of competence are final. We should not seek to create new institutions.

(3) The general orientation of the talks must be toward sustaining or achieving greater levels of mutually beneficial international growth and development, taking into account domestic economic policies; and

(4) The talks should take place in an atmosphere of cooperative spirit similar to that which has brought us together in Cancun—rather than one in which views become polarized and chances for agreement are needlessly sacrificed."

The President also suggested that "officials of our governments informally confer in the months ahead as to appropriate procedures." This process of consultation to ascertain if there is widespread acceptance of the President's four understandings is taking place in New York, Washington and overseas. If full acceptance of the understandings is confirmed by these consultations, the United States will engage in a new preparatory process. Therefore the agenda or timetable for global negotiations will only be discussed once a consensus is reached on the four understandings.

Question. How is the U.S. trade policy position being coordinated?

Answer. The overall responsibility for the Cancun Summit rests with the State Department. All decisions on the post Cancun action plan described earlier were cleared through a series of interagency meetings. The U.S. trade policy position will be coordinated by the U.S. Trade Representative through interagency meetings of the Trade Policy Subcommittee (TPSC) and the Trade Policy Committee (TPC). The President may also wish to discuss trade policy at meetings of the Cabinet Council for Economic Affairs (CCEA).

Question. Of major concern is that concessions and promises will be made in the U.N. political forum in vague language to developing countries in response to their demands on trade which will then be sent to the GATT for negotiations and implementation in specific terms. The dangers are two-fold: (1) that promises will be made for foreign policy reasons that are unrealistic in terms of concrete fulfillment, thereby raising false LDC expectations and later continued frustration; and (2) the GATT will become yet another forum for LDC political rhetoric, undermining its usefulness as a body where meaningful discussion and agreement on specific issues can take place in a pragmatic way.

Assuming negotiations on specific trade issues will take place in the GATT rather than the U.N., how do you foresee that the above dangers can be avoided?

Answer. The Administration shares the Subcommittee's concern that vague language in our discussions on trade could lead to serious misunderstanding. At Cancun, the President sought to avoid the danger of misunderstanding by a clear statement of the U.S. position on global negotiations and the GATT. The need to respect and preserve the competence and functions of the specialized international agencies is outlined in the second understanding. The President also stated that the United States will not agree to negotiations which place the central body of the United Nations in a position to overrule the GATT on trade matters.

Question. How might global negotiations relate to the agenda for the GATT Ministerial with respect to LDC trade issues?

Answer. The Contracting Parties of the GATT recently voted to meet at the ministerial level in November of 1982. The purpose of the Ministerial as outlined by the Contracting Parties would be to "examine the functioning of the multilateral trading system and to reinforce the common efforts of the Contracting Parties to support and improve the system for the benefit of all nations. To this end, Ministers would address themselves to the implementation of the results of the multilateral trading system, problems affecting the trading sytem, the position of developing countries in world trade and future prospects for the development of trade."

In order to ensure that the concerns of developing countries are addressed in the GATT Ministerial, the United States Trade Representative will be writing to several Economic and Trade Ministers of the major developing countries to elicit their ideas for agenda items and to encourage their participation in the preparatory phase of the Ministerial.

We believe that the GATT ministerial holds out the best prospect for discussing in depth the trade problems of all countries, including the developing countries.

It is difficult to anticipate how global negotiations, if they were launched, would fit in with the GATT Ministerial. It is clear, however, that any decision on trade matters will be made in the GATT.

Question. What do you see as the role of the OECD?

Answer. The OECD is viewed as a forum for discussing trade policy with nations with which we share common trade interests. It does not supplant the legitimate role of the GATT where the concerns of all the Contracting Parties, including the developing countries are discussed and resolved.

Question. You state on page 12 of your testimony that the Administration has decided to seek extension of our GSP program, which expires in 1985, and that you will explore the possibilities of an international harmonized and simplified system.

At this point can you give us an idea of your timetable in terms of consultation and submitting legislation to the Congress?

As you know, one of the major criticisms about our present program is that 60-70 percent of the benefits go to the most advanced rather than to the neediest LDCs. Do you have any thoughts at this stage on how greater "graduation" might be achieved, particularly under an international harmonized system given the pressures from LDCs against reduction of their benefits and pressures from other developed donors for burdensharing?

Answer. The Administration will begin evaluation of specific proposals for modifying and extending the GSP next year. The first step in this process will be a series of public hearings to be held throughout the United States in the spring to accept public views on what form and substance a future GSP could take. We will use these views as part of the background information to be considered in the interagency process as we formulate concrete proposals for a new GSP program.

A very important part of our consultation process next year also will be discussions with members of Congress on the changes they would like to see implemented in a new GSP. The USTR GSP staff will be available to confer with any interested Congressional staff members on any or all elements of a future GSP. We consider this exercise to be a valuable part of the overall consultation process, and I hope you will feel free to inform my Office of your views on any specific aspects of the GSP or its overall administration in the coming months. I expect that legislation on extension of the GSP will be submitted to Congress sometime in early 1983.

Our goal in enacting a new GSP program is to establish a scheme which will benefit as many developing countries as possible, particularly the less advanced developing countries. Clearly, meeting this objective will entail making a number of changes in the present system, the precise nature of which the Administration is just now beginning to consider. We are going into next year's consultation process with open minds and will rely a great deal on the constructive suggestions of interested parties in formulating proposals for a new scheme.

Our aim for the international harmonization of GSPs is to consider making the various GSP programs of industrial countries more similar so they will better serve the needs of beneficiary developing countries which find the current system of twenty-or-so different programs difficult to understand. To that end, I expect that we will explore measures which will not unduly complicate administration and utilization of the GSP but which will differentiate meaningfully between developing countries according to their degree of competitiveness and economic development.

Chairman Gibbons. *The subcommittee will reconvene tomorrow* at 9:30 a.m. in this room to hear Secretary Block.

[Whereupon, at 12:40 p.m., the subcommittee adjourned, to reconvene at 9:30 a.m., Thursday, October 29, 1981.]

U.S. TRADE POLICY

THURSDAY, OCTOBER 29, 1981

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, D.C.

The subcommittee met at 9:45 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

Chairman Gibbons. Good morning, ladies and gentlemen. The hearing of the Trade Subcommittee of the Ways and Means Committee will come to order.

This is our second day of trade oversight hearings and we will continue to hear from principal witnesses from the executive branch agencies, beginning with Agriculture Secretary William E. Block, to be followed by Undersecretary of State for Economic Affairs Myer Rashish, Under Secretary of Labor Malcolm R. Lovell, and Council of Economic Advisers Chairman Murray L. Weidenbaum.

This afternoon we will start our panel discussions beginning with the trade agenda for the 1980's, with witnesses from the major trade agencies, including USTR Ambassador Brock, who will be joining us for the second day.

It is my pleasure to welcome Secretary of Agriculture Block in his first appearance before the Subcommittee on Trade.

Please proceed, Mr. Secretary.

STATEMENT OF HON. JOHN R. BLOCK, SECRETARY OF AGRICULTURE, ACCOMPANIED BY R. E. "BUD" ANDERSON, ASSISTANT ADMINISTRATOR, INTERNATIONAL TRADE POLICY, FOREIGN AGRICULTURAL SERVICE

Secretary Block. Thank you very much, Mr. Chairman. I am pleased to meet with the subcommittee and have a chance to talk about an issue that is of vital importance to the agricultural industry. I have with me today by my side Mr. R. "Bud" Anderson, Assistant Administrator, International Trade Policy, Foreign Agricultural Service. Upon completion of my remarks, on some of the questioning I may ask him to give us a little bit of help if it is all right with you.

Chairman Gibbons. Certainly.

Secretary Block. I would go ahead and proceed with some remarks here, and then open it for questions.

Chairman Gibbons. Mr. Secretary, I will put your entire statement in the record, so you may proceed in any manner that you wish.

Secretary Block. Thank you very much. I am pleased to have this opportunity to meet with you and discuss the agricultural trade policies and objectives of this administration.

I think our approach to agricultural trade is well known. It can be stated very simply: The administration's No. 1 priority for U.S. agriculture is long term, sustainable export growth. And we believe this growth can best be achieved in a trading system in which the market, not government, is the primary factor.

The administration's farm programs and policies are founded on this philosophy. Our proposals for farm legislation would place greater reliance on the marketplace for farm income. We want to reduce government interference in the farmer's production and marketing decisions.

These programs are export-oriented. Our price support program proposals are mindful of the need to protect farmers against economic disaster, but they also recognize agriculture's need to be competitive in an expanding and increasingly competitive world market.

American farmers are more dependent on the world market today than ever before. We are at the point where farmers use almost 40 percent of their cropland to produce for export, and they have come to depend on exports for one-fourth of their marketing income.

The importance of this agricultural export trade goes beyond the farm. Agricultural exports sustain more than 1 million jobs producing, processing, shipping, and financing products for export. Substantial agricultural trade surpluses year in and year out help strengthen the dollar, and agricultural exports reduce the cost of farm programs by moving production to market rather than the Government bin. U.S. agricultural trade helps build stronger relationships with other countries.

U.S. agricultural exports will continue to grow. They totaled about $44 billion in fiscal 1981, and should be about $28 billion, compared with about $27 billion in fiscal 1981.

For the longer term, foreign food demand is likely to continue to expand at a near record rate, and purchases of food, feed, and fiber by other countries will continue to increase, with a heightened demand for U.S. farm exports.

Despite the world's increasing demand for food, the future for U.S. agricultural exports is not without problems beyond economic factors that can have negative influences on export growth.

One of these is increasing competition. Major producers in South America, Europe, and other areas are increasingly active in world markets, and this was stimulated if not generated by the Soviet embargo. The Department has stepped up its activities to help producers and exporters penetrate and expand foreign markets, and these will be discussed in one of the panels that have been scheduled during these hearings.

A greater threat and a bigger challenge to U.S. agricultural export growth is the rise in protectionist sentiment in the trading world.

I might comment very briefly on the kind of activities we see from other countries. I am recently back from a trip to the Far East, Korea, and China, and I found that as I talked to ministers of agriculture and trade and even the President there in Korea that the ministers of agriculture and foreign trade of countries such as Australia and Canada had also been to these countries not too many weeks in advance of my trip. It tends to point out that we are in a very competitive world marketing atmosphere today. The United States must be very aggressive if we are going to hold our own.

As I suggested at the outset of these remarks, the administration's position on agricultural trade is well known and it is clear. We are opposed to protectionism and favor freedom to trade.

We intend to work as closely as we can with our trading partners to make the agreements reached in the Multilateral Trade Negotiation work fairly and effectively. We intend to keep the commitments made by the United States in the MTN and earlier agreements. We expect other countries to do the same.

We view proposals for international agreements in the context of our own agricultural policy, which is to help American farmers compete effectively in markets at home and abroad. We believe the market offers better opportunities for trade growth than multilateral agreements that allocate supplies, set prices, or divide up world trade.

We also are skeptical of bilateral agreements except under very special circumstances. In our view they are more likely to restrict than to foster trade.

As you know, the European Community's common agricultural policy protects its farmers from world price changes and encourages overproduction by using high support prices and production and other subsidies. The cost of this program has become enormous, and EC policymakers have begun to shift the burden of domestic overproduction to their trading partners in the form of reduced access to their market and subsidized competition in third-country markets.

We have two general concerns with the EC approach to trade. First is the displacement of U.S. exports in third countries by export subsidies. The other is the increased threat to access to the EC market for American agricultural products.

We are particularly disturbed over the Community's increasingly aggressive use of export subsidies and their proposals to establish a formal common export policy that would use additional measures to dispose permanently of surplus production in international trade. We have met with European Community leaders and told them that we cannot and will not accept trade distorting practices.

The administration has also made clear its opposition to the Community's tendency toward increased border protection. We are pleased that the EC Commission dropped from consideration a draft proposal to impose a tax on vegetable fats and oils.

However, we still face a serious threat on another front. Pressure from some member states is increasing to limit imports of feedgrain substitutes, particularly corn gluten feed, by unbinding the zero duty bound in the GATT. With a Community market in feedgrain substitutes valued at $600 to $700 million last year at stake, we would be forced to take immediate counteraction if the European Community were to impair our access.

We also are watching the Community's enlargement process. Greece acceded to the European Community last January and Spain and Portugal could join as early as 1984. The direction in which the European Community moves to make adjustments for the acceding countries will have important implications for U.S trade.

We are following GATT procedures with respect to Greece to insure that we are fully compensated for the effect of enlargement, and will do the same with Spain and Portugal.

Those are just some of the major agricultural trade policy issues we face with the European Community. The United States is taking a strong stand on these issues with the Community itself, and is seeking to work with its other trading partners and GATT members to press the European Community to move in the direction of freer trade.

The United States-Japanese agricultural trade relationship involves a high degree of interdependence. Japan is American agriculture's top customer, with exports expected to reach about $7 billion this year, and the Japanese look to the United States for about 80 percent of their imports of grains and about 95 percent of soybean imports. They are concerned about us as a reliable supplier. They ask that question on more than one occasion. I might add furthermore they made it clear that not only were they shaken by the embargo on soybeans back in 1973 and 1974, they were also shaken by the Soviet grain embargo because they just did not know what this meant. They just had to assume the United States maybe was not very reliable.

So liberal agricultural trade is in the interest of both. However, Japan continues to restrict imports of a number of important agricultural products, and their efforts to reduce their rice surplus in third-country markets have caused us concern. We told them that on our trip and talked to them about it.

The United States has many bilateral understandings and agreements with other countries that permit discussion of agricultural trade issues. In addition, the Organization for Economic Cooperation and Development [OECD] and the United Nations Committee for Trade and Development [UNCTAD] provide international forums for discussion of agricultural issues. However, trading rules come down to the GATT and agreements reached in multilateral negotiations, which set forth international rights and obligations governing trade.

Nations must look to the mechanisms contained in the MTN and to the GATT to enforce compliance with the agreements reached in the MTN. Our principal concern with respect to MTN compliance is with the codes on subsidies and standards.

The Subsidies Code imposes limits on agricultural subsidies, but it does not outlaw them and they continue to be a problem.

The Standards Code requires more open government processes in establishing regulatory standards. However, it has become apparent that the code may fail to cover some agriculture-related trade barriers. At our initiative, the Code Committee has been discussing the applicability of the code to disputes over production and processing methods.

I think it is clear from this summary of U.S. objectives in international trade and the obstacles to achieving them that our policy goals are not fully shared by our major trading partners.

Despite these and other impediments, this administration remains dedicated to the principle of more open world markets and more liberal trade as the best means of assuring the most efficient growth in agricultural production and the best use of the world's agricultural resources. We will continue to work toward that goal.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT BY JOHN R. BLOCK, SECRETARY OF AGRICULTURE

Mr. Chairman and Members of the Committee: I am pleased to have this opportunity to meet with you and discuss the agricultural trade policies and objectives of this Administration.

I think our approach to agricultural trade is well know. It can be stated very simply: The Administration's number 1 priority for the United States agriculture is long-term, sustainable export growth. And we believe this growth can best be achieved in a trading system in which the market, not government, is the primary factor.

The Administration's farm programs and policies are founded on this philosophy. Our proposals for farm legislation would place greater reliance on the marketplace for farm income. We want to reduce government interference in the farmer's production and marketing decisions.

These programs are export-oriented. Our price support proposals are mindful of the need to protect farmers against economic disaster but they also recognize agriculture's need to be competitive in an expanding and increasingly competitive world market.

THE ROLE OF AGRICULTURAL EXPORTS

American farmers are more dependent on the world market today than ever before. Ten years ago, for example, exports accounted for less than 40 percent of United States wheat production; this year, almost 70 percent of the U.S. wheat output will move into export, and the world market provides an outlet for one-third of the U.S. corn harvest—three times the export share in 1971/72. Half our soybean production is exported. We are at the point where farmers use almost 40 percent of their cropland to produce for export, and they have come to depend on exports for one-fourth of their marketing income.

Obviously, foreign markets are essential to the health and growth of the farm economy. But the importance of this export trade goes beyond the farm. Agricultural exports sustain more than one million jobs producing, processing, shipping and financing products for export. Substantial agricultural trade surpluses year in and year out help strengthen the dollar. By directing significant portions of the abundant production of U.S. farmers into foreign markets, agricultural exports reduce the cost of farm programs.

A less tangible but no less important benefit of U.S. agricultural trade is to build stronger relationships with other countries, which can lead—and in almost every case, have led—to cooperation in areas beyond agriculture.

If you look at the top ten markets for U.S. agriculture in 1980—all of them exceeding a billion dollars—you find a worldwide roster of countries that are important to the United States in foreign affairs. These are Japan, The Netherlands, Mexico, China, Canada, West Germany, South Korea, Spain, Taiwan and Italy. The Soviet Union was No. 11, with shipments totalling over $1 billion, despite the embargo. And taken together, the Comecon Countries of Eastern Europe looked to U.S. agriculture for more than $2 billion worth of farm products in 1980.

EXPORT OUTLOOK

U.S. agricultural exports will continue to grow. As you know, forecasting of supply and demand for agricultural products is not precise. There are too many important variables—weather, international relationships, currency fluctuations, economic conditions in customer countries, and other factors bear upon the volume of trade in agricultural products.

This past fiscal year, for example, unforeseen factors led to a successive scaling back of our forecasts of U.S. agricultural exports from the $48 billion projected last

November to exports of about $44 billion for fiscal 1981. This is a gain of 10 percent over fiscal year 1980 instead of almost 20 percent as we had first expected. The reduction from expectations derives, in part, from the negative effects of high interest rates, the stronger dollar, and generally sluggish worldwide economic performance.

The rise in interest rates tended to constrain the ability of developing countries to purchase goods and services, including agricultural commodities. And it encouraged buying only for immediate needs to avoid high costs of money tied up in stored commodities. The appreciation of the dollar made U.S. goods more expensive on international markets.

It is difficult to pinpoint the net effect of exchange rate fluctuations on agricultural exports. However, during the past year, agricultural export volumes were moving in accord with expectations until the dollar appreciation during the spring and summer, after which the volume deviated down from trend.

The same factors will continue to affect U.S. agricultural trade during fiscal year 1982. However, record or near record U.S. crops of corn, wheat and soybeans should result in a decrease in export unit values, with an increase in export volume, which we project at about 10 percent. Overall agricultural exports in fiscal 1982 should range in value from $44 to $48 billion.

For the longer term—bearing in mind that the uncertainties increase the further you project into the future—we expect continued export growth. Foreign food demand is likely to continue to expand at a near record rate of 2.5 to 2.7 percent in volume a year in the 1980's. At the same time, sharply rising production costs and increased use of marginal land are expected to slow increases in foreign food output to 2.1 to 2.4 percent per year.

Given this supply and demand situation, purchases of food, feed and fiber by other countries will continue to increase, with a heightened demand for U.S. farm exports.

THE AGRICULTURAL TRADE SURPLUS

As I suggested earlier, United States agricultural trade surpluses have been substantial, making significant positive contributions to the total U.S. trade balance. These surpluses should continue to grow.

In fiscal 1981, a slight decline in U.S. agricultural imports and the increase in farm exports produced a positive agricultural trade balance of around $27 billion, a rise of 16 percent, or almost $4 billion. Preliminary projections for fiscal 1981 show a non-agricultural trade deficit of over $50 billion, which would be slashed by approximately one-half by the contribution of agricultural trade.

We expect a further, but smaller, increase in the agricultural trade balance in the current fiscal year—to $28 billion to $30 billion. Forecasts for the nonagricultural trade balance are not yet available, but analysts expect that the strong U.S. dollar will continue to affect trade flows, leading to the widening of the nonagricultural trade deficit.

It is difficult to project how the agricultural trade balance will move during the next few years. However, barring major deviations from current global economic trends, our projections imply that by 1986 U.S. agricultural exports would total from $65 billion to $75 billion and agricultural imports would total from $22 billion to $28 billion. This would leave an agricultural trade surplus of about $40 billion, an increase of 40 percent over the projected surplus for fiscal year 1982. These recurring agricultural trade surpluses will continue to help soften the impact of nonagricultural deficits on the U.S. economy.

TRADE CHALLENGES

Despite the world's increasing demand for food, the future for U.S. agricultural exports is not without problems beyond those that I have cited as negative influences on export growth.

One of these is increasing competition. Major producers in South America, Europe and other areas are increasingly active in world markets, and this was stimulated if not generated by the Soviet embargo. U.S. agriculture, with its abundant productivity, can meet fair and equitable competition, and the Department has stepped up its activities to help producers and exporters penetrate and expand foreign markets. We have mounted a system of commodity sales teams of developing countries, we are seeking new ways to use credit and have developed an improved information system and a method of pinpointing market development budgeting. These and other initiatives will be discussed in one of the panels that have been scheduled during these hearings.

A greater threat and a bigger challenge to U.S. agricultural export growth is the rise in protectionist sentiment in the trading world. Export subsidies, particularly by the European Community, to distort markets for U.S. agricultural commodities and those of other countries. Unnecessary import regulations are proliferating, and bilateral agreements are on the increase as a mechanism of trade.

As I suggested at the outset of these remarks, the Administration's position on agricultural trade is well known and it is clear. We are opposed to protectionism and favor freedom to trade. We intend to pursue, and to pursue aggressively, domestic and international policies that will liberalize, rather than restrict, trade in agricultural products. We will attempt, in our own market, to set an example for others to follow.

We intend to work as closely as we can with our trading partners to make the agreements reached in the Multilateral Trade Negotiation work fairly and effectively. We intend to keep the commitments made by the United States in the MTN and earlier agreements. We expect other countries to do the same.

We view proposals for international agreements in the context of our own agricultural policy, which is to help American farmers compete effectively in markets at home and abroad. We believe the market offers better opportunities for trade growth than multilateral agreements that allocate supplies, set prices or divide up world trade.

We also are skeptical of bilateral agreements except under very special circumstances. In our view they are more likely to restrict than to foster trade.

The bilateral sales agreement with the Soviet Union is one of those special cases. It is based on the need to offset that nation's potential to disrupt world markets with its variable production and massive buying ability.

The previous administration signed a minimum supply agreement with China, and we intend to honor that agreement. Finally, we have an agreement with Mexico that supports important foreign policy goals and recognizes the unique relationship we have with our neighbor to the South.

The Reagan Administration has taken every opportunity to express its concern over the trend toward the increasing use of devices that destabilize and limit the growth of agricultural trade.

We have done so in regular consultations on agricultural and other matters, and I have personally voiced U.S. opposition to these trends in meetings with ministers during get-acquainted and market development missions to the European Community and the Far East.

THE EUROPEAN COMMUNITY

As you know, the Community's Common Agricultural Policy protects its farmers from world price changes and encourages overproduction by using high support prices and production and other subsidies. The cost of this program has become enormous, representing two-thirds of the EC budget last year, and EC policy makers have begun to shift the burden of domestic overproduction to their trading partners in the form of reduced access to their market and subsidized competition in third country markets.

Rising costs of the CAP have reached a crisis stage, and there are active discussions under way in the Community on reform of the system. We appreciate the responsible voices being raised in these discussions, urging that internal, rather than external, solutions be pursued, and we hope they will prevail. Certainly, the decision to set aside the proposal for an internal tax on vegetable oil was a responsible act, and we commend the EC Commission for it.

We have two general concerns with the EC approach to trade. First is the displacement of U.S. exports in third countries. For example, EC export subsidies for wheat flour result in an artificial reduction of the U.S. market share. The other concern is the increased threat to access to the EC market for American agricultural products.

We are particularly disturbed over the Community's increasingly aggressive use of export subsidies and their proposals to establish a formal Common Export Policy. This policy would use long-term bilateral agreements, special credits and an even greater use of export subsidies to dispose permanently of surplus production in international trade. We have told EC leaders that we cannot and will not accept trade distorting practices.

The Administration has also made clear its opposition to the Community's tendency toward increased border protection. We are pleased that the EC Commission dropped from consideration a draft proposal to impose a tax on vegetable fats and oils. Such a tax would have affected soybean oil, with serious implications for U.S.

soybean trade with the EC valued at close to $4 billion, and we expressed strong oposition to the proposal.

However, we still face a serious threat on another front. Pressure from some member states is increasing to limit imports of feed-grain substitutes, particularly corn gluten feed, by unbinding the zero duty bound in the GATT. The EC is concerned because imports of these commodities have risen dramatically in recent years. We have pointed out that this has occurred because the EC price for the major competing product, corn, is kept high through the Community's own domestic support levels and import levies. With a Community market in feed grain substitutes valued at $600-$700 million last year at stake, we would be forced to take immediate counteraction if the EC were to impair our access.

EC ENLARGEMENT

We also are watching the Community's enlargement process. Greece acceded to the EC last January and Spain and Portugal could join as early as 1984. Support of the agricultural sectors in these countries will add to EC budget costs, and the strong CAP incentives for certain fruits and vegetables may spur production in the new member states, increasing surplus problems and creating new problems for U.S. exports. The direction in which the EC moves to make adjustments for the acceding countries will have important implications for U.S. trade.

We know that free access to the EC market for the new countries' products may result in damage to the United States because of trade diversion. Changes in the border treatment of U.S. commodities may also restrict some U.S. sales to the new member states as they adopt the EC tariff schedule and import regimes.

There should also be opportunities for gains. One area that may open up for us as a result of enlargement is that of feedgrain substitutes. The zero duty binding on some of these commodities may encourage their increased use in fee rations by Greece, Spain and Portugal.

The United States is actively involved in a GATT Working Party review of the terms of Greek accession. Within the next few months we expect to consult with the EC to seek compensation for any GATT rights which have been impaired as a result of enlargement. We will follow this same procedure with Spain and Portugal to ensure that we are fully compensated for the effect of enlargement of the EC.

Those are just some of the major agricultural trade policy issues we face with the European Community. The United States is taking a strong stand on these issues with the Community itself, and is seeking to work with its other trading partners and GATT members to press the EC to move in the direction of freer trade. We intend to use the GATT whereeever appropriate to solve trade disputes. When other GATT members have complaints against the EC, we will support them whenever it is in our interests to do so. We also intend to raise our concerns over EC trade policy in other international forums, such as the recent wheat exporters meeting where we emphasized our concerns over the EC grain export policy. We will encourage other countries to do the same.

JAPAN

The U.S.-Japanese agricultural trade relationship involves a high degree of interdependence. Japan is American agriculture's top customer, with exports expected to reach about $7 billion this year, and the Japanese look to the United States for about 80 percent of their imports of grains and about 95 percent of soybean imports.

So liberal agricultural trade is in the interest of both. However, Japan continues to restrict imports of a number of agricultural products that are important to U.S. agriculture, most notably beef, oranges and citrus juices; and their efforts to reduce their rice surplus in third country markets has caused us concern.

Japan did make major concessions during the MTN that benefit U.S. agriculture—tariff cuts or bindings on $1.6 billion in agricultural trade (1978) to the United States, significant expansion of imports of high-quality beef, and increases in the orange and citrus juice quotas.

The Japanese are on schedule in their quota expansion. Consultations on the matter are scheduled to be held during Japanese fiscal year 1982, at which time we expect to press for complete liberalization of trade in beef, oranges and citrus juice. We have urged that these talks be held as soon as possible.

CONSULTATIVE ARRANGEMENTS

Discussion of agricultural trade issues is not confined to trade negotiations. The United States has many bilateral understandings and agreements with other countries that permit discussion of these issues. Some of the most important of these are the Agricultural consultations with Japan, the U.S.-Mexico Joint Commission on Commerce and Trade; the U.S.-USSR grain agreement consultations; the U.S.-China Grain agreement Consultations and semi-annual high level consultations with the EC.

As you know, of course, the Organization for Economic Cooperation and Development (OECD) and the United Nations Committee for Trade and Development (UNCTAD) provide international forums for discussion of agricultural issues, but trading rules come down to the GATT and agreements reached in multilateral negotiations, which set forth international rights and obligations governing trade.

MTN COMPLIANCE

Nations must look to the mechanisms contained in the MTN and to the GATT to enforce compliance with the agreements reached in the MTN. Our principal concern with respect to MTN compliance is with the codes on subsides and standards.

The Subsidics Code imposes limits on agricultural subsidies, but it did not outlaw them and they continue to be a problem. We are taking the European Community to the GATT on its damaging use of subsidies on wheat flour and sugar, and we may do so on other products for which Section 301 petitions have been received—poultry and pasta goods.

The Standards Code requires more open government processes in establishing regulatory standards. However, it has become apparent that the Code may fail to cover some agriculture-related trade barriers. At our initiative, the Code Committee has been discussing the applicability of the code to disputes over production and processing methods. We are concerned in particular with the dispute settlement coverage involving meat slaughtering, packing, and plant quarantines.

I think it is clear from this summary of U.S. objectives in international trade and the obstacles to achieving them that our policy goals are not fully shared by our major trading partners.

EC policies of self-sufficiency in agriculture and subsidized worldwide surplus disposal conflict in many respects with U.S. agricultural policies and export goals. Japan, our major market, remains heavily protective in agricultural commodities that it holds important to domestic agriculture, such as rice, fruits and meats. Special or preferential benefits accorded to developing countries under the GATT make it difficult to hold developing countries responsible for trade-restrictive actions, although more liberal trade in agricultural products would be of particular benefit to many.

Despite these and other impediments, this Administration remains dedicated to the principle of more open world markets and more liberal trade as the best means of assuring the most efficient growth in agricultural production and the best use of the world's agricultural resources. We will continue to work toward that goal.

Chairman GIBBONS. Thank you, Mr. Secretary.

We welcome you here. I have got a lot of hangups about our agricultural policy, but I am not going to blame them all on you because I realize you have been on the job a relatively short period of time and have had enough trouble with the agriculture bill that is dragging its way through Congress right now.

I noticed in your statement that you said that the administration and you supported more of a market system in our agricultural policy, and I applaud that. I realize that we have got a long way to move in that regard, but is it not a little hard for us to go out into the world and preach a market system with as many restraints as we have got in our agricultural system?

Secretary BLOCK. Yes, sir. I think there are some problems, but yet when you look at the production in the United States and the way we function we are pretty open and pretty free in our production, and we live for all practical purposes within the world market structure. Our grains and our livestock prices are almost entirely floating at the world market level. We occasionally bump down against our loan level, but for the most part we are floating above this level all the time, and that makes it possible that we can compete fairly and effectively in the world market, and we have other trading partners that compete with us, but if they compete on a fair basis I do not think we have any complaints. I think some of these countries for the most part are good competitors and we are going to have to bang head to head with them, Australia, Argentina, and Canada to name a few. Our problem is with the countries that do not allow their agriculture to function on a freer basis, which puts them into competition artificially. That is what we have to object to.

Chairman GIBBONS. Well, I realize that it would be pretty difficult for us to unilaterally throw away all of our crutches and restrictions, and I think that we are probably going to have to do it in some multilateral negotiation. Is there any interest in the administration in perhaps moving to a GATT-type negotiation on international agricultural policy?

Secretary BLOCK. Well, I understand that there will be a ministerial meeting in 1982 at which time we will be discussing some of these issues. I think the process may be a slow one in getting all the details ironed out. On a bilateral basis I have been talking with the ministers of agriculture and other officials from many of our trading partners, countries that we compete with, and we have really had a pretty good meeting of the minds on the direction we want to go, and I am talking about countries such as Canada, Argentina, Australia, New Zealand, and we have a very good meeting of the minds. I feel this is a first step, but I think it is the United States' responsibility to take some leadership here because we are looked to as a leader in agricultural production in the world.

Chairman GIBBONS. I applaud you for having these bilateral discussions, and I know that they are fruitful and productive, but I would imagine you would find in a bilateral discussion everyone a little uneasy about making movements because they do not know what the third party or the fourth or fifth party who is not a party to the discussions is going to do, so everybody tends to play their cards pretty close to their vest in an operation like that. That is why I suggest that perhaps it is time to set out on a very broad basis and discuss rules for agricultural trade, foreign agricultural trade.

Mr. Secretary, barring that is there any way we can get rid of all this mountainous supply of dairy products that we have in this country?

Secretary BLOCK. If someone has a real good idea I wish they would bring it to me. It has been a serious problem with us. The storage costs are tremendous, and the accumulation is growing. That is the other side of the problem. In the farm bill now there are two versions. They are not the same, but the House version actually projects an increase at the support level next October 1, and we just saw a 3-percent increase in the number of dairy cows this September. In other words, dairy cow numbers are growing, they are not declining, and with a constant support level between now and next October and then an increase in support then I just cannot see how this is going to discourage excess production. I tend to think it is going to encourage milking cows, and the end result is going to be more dairy products and surpluses that the Government will be obliged to buy up.

We would like to sell this, and we have made one sale and a major large sale to New Zealand, and next summer we will be in a position to look toward making another sale of some kind. We have cheese, and we are looking for markets for cheese and nonfat dry milk, but indications are that there are not very good markets for it, not the size that we had for the butter.

It is a big problem for us, and even when we decide we want to sell it or if we can find that there are some markets, the way we have to do it is, in effect, to sell it at a subsidized price, and here we are talking today about lowering subsidy on exports and getting out of this crazy game. We do not want to play the game, and we do not want other countries to play this subsidy export game, and here we have got these products and we are in quite a dilemma because we cannot even get rid of them unless we subsidize them. I think it is crazy, and I do not know where we are going to go unless some sense comes into the dairy program.

Chairman GIBBONS. I agree with everything you have said in that regard, and I do not see any way that we can ever work our way out of this unilaterally or even bilaterally. I think we must do it multilaterally and try to establish some reasonable rules that we can all resort to as far as agricultural products are concerned in export trade.

Obviously there are people in the world that need to be fed and we need to produce enough food to feed them, but as I understand the situation it is not a question of our capacity to feed people. It is a question of their capacity to be able to pay a reasonable price for what can be produced. That is the dilemma we find ourselves in. We find ourselves with these embarrassing surpluses while some people are literally starving. I do not know any way we can do this other than sitting down. We have had a waiver for 25 years under the GATT for our section 22 practices, and we got that waiver on the understanding that it was only going to be temporary. It has been as temporary as some of those World War II buildings that finally got destroyed. I think we have just got to work our way out of this dilemma.

I have got some other questions about various sectors, but I do not want to monopolize the conversation.

Mr. Frenzel, would you like to inquire?

Mr. FRENZEL. Thank you, Mr. Chairman.

Mr. Secretary, we appreciate your coming in here and we are grateful for your statement.

I guess my questions really rotate around the theme that has already been struck by Mr. Gibbons. Members of this subcommittee do a certain amount of travel around the country and around the world. We have just come back from the Far East where of course we are trying to get Japan to take more of our beef and citrus and to return to us as a heavier supplier of soybeans. We are also interested in selling more wheat and corn and cotton.

We were also in other parts of the Far East where we were trying to sell rice. We keep demanding free markets abroad but we notice, some of us to our consternation, that the agricultural sector of our economy, while it demands more markets abroad, it seems to be very interested in erecting barriers at home. Increasingly we are meeting resistance out there.

While you were abroad I believe the House passed an agriculture bill with what is assessed by our trading partners as being a very restrictive meat regulation. Our dairy industry is pressing for casein quotas which your department, thankfully, has been successful in suppressing.

It used to be that we could go out there and talk with some assurance that we had pretty open markets and we could demand that our trading partners do a better job of opening up their markets. I have the feeling, a little bit of a depressing feeling that the people who need the markets abroad the most have lost sight of that and are far more interested in building walls around America than they are of promoting sales of their own products abroad.

I would like to have you comment on that bottom line. I hope I am wrong, and maybe you will tell me that I am.

Secretary **Block**. Well, the whole discussion that you provided here is of considerable concern. I was here the last 2 days when we were debating that meat amendment in the House. In spite of some amendments offered to try and turn it around and straighten it out we never really did, and we ended up getting something in the House which is not desirable, and what we have in the Senate bill is disastrous.

Mr. **Frenzel**. It is worse?

Secretary **Block**. Yes, it is disastrous. It is hard to understand why we do not have a little more commonsense in this whole arena, because it is going to cost us in the final analysis. I just wholeheartedly agree with what you say, and I can only ask that you and any other members of the committee help us out in conference to the extent that you can, because we are going to be fighting it.

Mr. **Frenzel**. I appreciate that. I think it is important. I have already heard from some of my counterparts in other governments, and the response is exactly what we would tell them if they did that to us, that two can play that game, and that we have far more at stake than they do, and we are going to pay for it in terms of reduced agricultural exports somewhere along the line. And so I wish you a lot of luck in doing it, and I do want to tell you that we as the subcommittee want to help you in your efforts to expand your markets abroad. We are anxious to work with you. We think agricultural products are one of this country's most technologically advanced fields and have had a great export record, and we think it can be a lot better.

I am also concerned about the Common Agricultural Policy and the surpluses that it has built up, and you referred to that in your discussion. We are very nervous that sooner or later that has got to be unloaded. It can only be unloaded in the same way that we dumped our butter. You have got to sell it cheap to move it or you have got to give it away, and I note that there is a GATT ministerial coming up next year in November. Every 10 years more or less they occur, and I wonder, is your Department prepared for another assault on the Common Agricultural Policy at that point?

Secretary **Block**. My understanding is that that issue on the Common Agricultural Policy may be one of the issues, but it will be much broader than that, and certainly the Common Agricultural Policy should be addressed because when you look at the trade problems that we face in this country and the trade obstacles that we see abroad I do not think there is any one thing that is any more threatening than that policy right now, and not just us but some of the other trading countries that are concerned about market access also.

Mr. FRENZEL. Well, I suppose if we ever made the final assault on the peak of the CAP that we would be asked about our section 22 waiver in the GATT, and I wonder whether you have any comment on whether that might be an appropriate tradeoff.

Secretary BLOCK. Well, I think it is one you have to look at. I do not know.

Mr. ANDERSON. I think that the Community and others have raised the issue of our section 22 waiver and we have had the waiver for a long time, there is no question about it, but I think what some people lose sight of is that the Community has an equally restricted import system in the form of variable levies, and we have never challenged those variable levies, and maybe the tradeoff on our part would be on the variable levy side. We think their variable levies are very, very restrictive in terms of raising world market prices up to high internal support prices, creating surplus production within the Community which is then exported on the world markets through the use of export subsidies, and that whole system has really never been addressed in the GATT. We have, over the years, as the Community expanded from 6 countries to 9 and now to 10 and eventually to 12, we have always accepted the expansion of the European Community as being completely in our interest—a stable Europe, bigger trading partner, strong ally. I think we are to the point where they are pretty big boys now, and along with being a major trading partner, which the Community is now, goes responsibility, and they have to accept some responsibility of their own relative to export subsidies and relative to the level of protection going into the Community. So, they certainly live in a glass house like we do. They have their share of restrictions, and we would be willing to talk about our section 22 waiver. I think it would raise into question their whole variable levy system and how it applies, because it is equally as restrictive.

Mr. FRENZEL. I think that is a good response, and we have got a long way to go and a lot of work to do in that area, and I hope that we will be able to do it. We have some difficulty in dealing with the EC because of their $18 billion negative trade balance with us, and obviously they are not, in that kind of a situation, in a hurry to make concessions. They have the same relationship with us as we do with Japan. It is hard to negotiate in those kinds of situations, but anyway I thank you for your answer and I yield the balance of my time.

Chairman GIBBONS. Mr. Jones.

Mr. JONES. Thank you, Mr. Chairman. I will just take a minute because we have a vote on, but I would like to discuss specifically your trip to Japan. You touched on it in your testimony. The first question is, Do you see any real loosening of their protective agricultural policy, particularly with regard to beef and citrus?

Secretary BLOCK. Well, certainly publicly they are not talking about it, but I guess I cannot say that I would predict any movement one way or the other, because they did not tip their hand to us. At the same time we made sure that they did understand that we wanted to reopen or open up the trade discussions as early as possible, and if we are not going to open them early, which I am not so sure that they are willing to do, certainly on schedule we want to go to work on liberalizing trade, and that is the objective of the discussions and that is what we should be looking toward and liberalizing it with regard to citrus, beef, and other products. That point we made quite clearly, and I am sure you have and other people have, but I cannot predict how easy it will be. I think we will have some success. I have to be optimistic.

Mr. JONES. With regard to bilateral trade, a number of us on the committee including the chairman and myself, are cosponsoring H.R. 4346, which implements many of the Wise Men's suggestions. One of those suggestions would be long-term supply and purchase agreements with Japan on agricultural products to allay their fears about our being an unreliable supplier. Have you or your colleagues had a chance to look at that legislation at least insofar as it impacts on your department? What is your comment?

Secretary BLOCK. I cannot speak to specifics on that legislation. As far as the issue that you bring up, as you look at the world as a whole I have observed many countries are moving toward many different kinds of supply agreements. There are more of them now than ever as far as I can tell, and it has been our general policy to feel that at least some types of supply agreements may not be in our best interest or the best interest of freer trade or more trade. It may be possible that some kind of arrangement could be made that would be flexible enough that could provide a useful framework for trade expansion and trade assurances in a country such as Japan.

Mr. JONES. We would appreciate it if you could look at that part and supply the subcommittee with your comments.

Secretary BLOCK. We will do that, sir.

[Additional information was not supplied.]

Chairman GIBBONS. We have got to vote. We will be right back. It will not take us more than 6 or 7 minutes, I hope.

[Recess.]

Chairman GIBBONS. We can resume now.

Mr. Hance, would you like to inquire next?

Mr. HANCE. Thank you very much, Mr. Chairman.

Mr. Secretary, it is good to see you and I appreciate your being here. I would like to ask you some questions that are very critical to those of us who represent agricultural areas. We have come to the realization over the last three or four administrations that there is not going to be a farm bill per se that will solve the agricultural problems of this Nation. I think no matter what bill comes out, we have to depend more and more on our exports.

I have a question on our grain sale to the Soviet Union, a topic I have discussed with you previously. We made the agreement with the Soviets on 8 million metric tons of grain, and now we are looking at selling more than the 8 million metric tons. It seems that their concern has to do with article 2, that they want some type of guarantee that the agreement is not going to be cut off overnight. I would appreciate it if you could expound on that and let us know the position that you all are taking on the negotiations and the position if any that the State Department is taking.

Secretary BLOCK. It is widely held that the Soviets would want assurances of supply, and in a new agreement I would have to assume they would be asking for assurances to whatever extent we are willing to give them of whatever amount of supply we are going to write into the new agreement.

In the most recent talks that Mr. Lodwick, Under Secretary of International Affairs and Commodity Programs in the Department of Agriculture led, I would comment that they hardly brought the point up. They did not make a big point out of it at all. That is for the 15 million metric tons of additional grain that we have offered. That may well be because they did not expect it on that 15 million metric tons, but in terms of a new agreement I am quite sure that they will be interested in something. I do not know what it will be, and from the question of what we will be prepared to provide in the way of assurances I really cannot say right now. We have not formulated the details on it. I frankly personally feel we need to have some assurances of some kind in there, whether the length of time or the details on it I do not know.

As far as State Department's position on that, I cannot answer that question because we have not sat down yet to talk about just what the administration would be coming forward with. A date for the new trade LTA discussions has not yet been set. I talked to Ambassador Brock last night and he said that the date is not yet established. In all likelihood he will be leading those discussions, because that is his responsibility. We will be working with him of course and we will have a major role of formulating the kind of agreement we end up with so that we can negotiate one.

Mr. HANCE. The new agreement has to come under STR, but I think the pressure has to come primarily from you and the USDA to encourage them to go ahead and to move in the area of the new agreement. If not, they will never get around to it. I would encourage you to continue to pressure them as much as possible, otherwise I am afraid that it will get lost in the shuffle since they have got so much to do.

Secretary BLOCK. I know how vitally important it is to agriculture and to our agricultural trade. I am encouraged by your statement when you point out that we cannot buy prosperity for agriculture out of the Government Treasury. Prosperity has to come from markets.

Mr. HANCE. This is a little off the trade subject, but I have always believed that we ought to do away with target prices and have higher loan prices, and if I could have written the farm bill it would have been a different bill. But that is another matter. If you could have written it in the House it probably would have been a different bill also.

One last question. Under the GATT agreement, policy advisory committees were created. Kennedy had the Agriculture Advisory Policy Committee, and members have not been renamed or appointed to that committee as they have in labor and other areas, and I think it is very important that we get them appointed. This in the past has worked very well. One other thing I would mention, in the past the members of this advisory committee had been the best people throughout agriculture without regard to political affiliation. I would hope that we would have the same type of representation in the future, and that you would be able to make those appointments or encourage the White House to make those appointments as soon as possible.

Secretary BLOCK. I appreciate that, and we will be working on it. I think you are right. It is important.

Mr. HANCE. Do you have any timetable?

Secretary BLOCK. I do not have the timetable, but I understand it is being worked on, but I do not have any timetable on it.

Mr. HANCE. Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you.

Mr. Schulze, would you like to inquire now?

Mr. SCHULZE. Thank you, Mr. Chairman, and thank you, Mr. Secretary, for your testimony. I hope my questions are not redundant. I was out of the room to vote.

During the deliberations on the farm bill as you know there was an effort made to basically get higher prices for export products for the farmers. I am concerned about that area and would like to see something done, and wondered whether you had any thoughts on a rational and reasonable way that we could do that.

Secretary BLOCK. I do not have any ideas on the way the Government can do it, because I just feel that if we did it in some artificial way, the end result would be ultimate distortions of the market, and we would be getting into some of the games that they play in the EC and some other countries.

I really think the only way to strengthen that price is to strengthen demand. The only ways to really strengthen price, you either have to have more demand or less supply, or a combination of the two. The best way to do it is strengthening the demand, and that is finding new markets. The other way is the supply. We are looking toward a set-aside on wheat assuming we could ever get a farm bill so we could have the program. That is my thought on it. I just think it is a mistake for the Government to try and dictate things like that.

Mr. SCHULZE. Thank you, Mr. Secretary.

Another of my concerns is the large trade deficit looming with Japan. Do you have any thoughts, or are you satisfied with the openness of their markets, or do you have any specific ideas on how we can encourage them to further open their markets to agricultural products, or is your Department doing anything along that line?

Secretary BLOCK. As I reported earlier I have been back about a week from being in Japan meeting with the Minister of Foreign Trade, the Minister of Agriculture, and other officials, and throughout that discussion probably one of the major items that I was stressing to them is that we have a large crop. We are a dependable supplier but they have as one of their responsibilities to the people in Japan, food security, and they talk a lot about it. Well, if they want real food security they should build more storage, buy and store more of our products so they have them there and have them on hand. I talked about this on many occasions. Rather than just saying they would not buy any more they said they would be willing and open to continue to talk about it and look for ways to store more and bring in more American products.

Whether we are going to get anything out of this is another question, but I think we need to continue to hammer away at this. Many countries talk about food security, food security here and food security there, but yet few countries are willing to do very much about it. When you talk about doing something that means that they should build storage, bring the crop in and the products in and store them there instead of the United States being continually expected to be the granary for the world, and we sit here with it and we have got it and it depresses our prices. If we could move it someplace else it would provide food security over there and it would strengthen our price here, and we would all be better off.

Mr. SCHULZE. I also was in Japan recently. I do not know whether you share my impression, but my impression is that they sit and listen politely and smile and say, yes indeed we are going to consider that, and do absolutely nothing. The message that we tried to transmit is that, quite frankly, we are sick and tired of a $15 billion deficit. If they do not do something, if there is no movement, we are going to do something. Now, I can tell you that that is a fairly prevalent mood in Congress, and if we do start taking some actions or moving in that direction I hope we can have your guidance or advice and do it in a wise fashion. I for one am fed up and I think the time has come, that we have had enough lip service, and we have got to have some action, especially with the large deficit that is looming. The time has come, in my opinion, to take some action and some very firm, dramatic, and perhaps very definitive action.

Secretary BLOCK. Some of what you are saying I told them. I said the Congress is in a very militant mood on this issue with this trade deficit that we face, and I said I am offering to you, I am suggesting to you the best possible solution that you can have to satisfy these concerns that we have in the United States. I am not asking you to buy Ford automobiles, which perhaps you do not need over there. I am asking you to buy farm products which you do need and which is part of your internal policy for food security. I said it is the best deal there is, and here it is. So the message you are saying is the same one I told them.

Mr. SCHULZE. Well, I also think they have been hearing that and they do not believe it, and quite frankly we are forced to take some action. I think we have to take some action and soon and dramatic action that is going to kind of hit them between the eyes like the mule and the 2 by 4. I think it is imperative that we do that. I think it is time to stop talking and bowing and smiling and saying isn't that nice, and let's keep talking about it. I think by God the time has come for some action.

Now, one other question, Mr. Secretary. The STR has announced that it has initiated an investigation on the EC agricultural subsidies on sugar. I wonder if you can give us an update on the status of that investigation.

Secretary BLOCK. I would let Bud Anderson give you that.

Mr. ANDERSON. Yes, sir, the STR had accepted that and we of course support that. We are working to assist the STR in the development of our case on sugar. We will be meeting with the European Community I am sure in the next few weeks to discuss this issue that is part of the consultative process, but we will be working together with our economic research people to try to ascertain the impact the EC subsidy program has had on our domestic sugar market here. All of that will be put together and become part of our brief and part of our arguments when we take the case and finally consult with the Community on this issue.

Mr. SCHULZE. I think since we do have probably the most open market, or one of the most open market systems in the world, it is time we started using the 301 device. I think you are going to see a lot more of it, and I would hope that your Department would be most cooperative in this area. And again, I guess it is like the mule and the 2 by 4; these are the things we are going to have to do. I think we should do them promptly and come down with both feet.

Mr. ANDERSON. We already have supported the Australians, so the Australians have a complaint also against the Community, supported by Brazil, and we have supported those complaints in some GATT meetings that have already taken place in Geneva. So I think we are firmly behind this case and we will give it every support that it needs to push it hopefully to a successful conclusion.

Mr. SCHULZE. Thank you very much.

Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Downey.

Mr. DOWNEY. Mr. Block, I appreciate the problem that you have, or that the country has, with respect to the storage of dairy products, but I want to explore with you in a little more detail this deal we made with New Zealand. Now obviously we have to sell or deal with the surplus in some way, but did we not know at the outset that by providing New Zealand, one of the larger exporters of dairy products, with subsidized dairy, that this butter was going to be sold someplace else? I mean basically were we not just providing New Zealand with a very, very good deal so that they could turn around and sell this butter or the equivalent butter to someone else, in this instance the Russians? Were we not aware of that at the time we made the deal?

Secretary BLOCK. We certainly were aware that they would be reselling the butter. In fact we sold it to them because they would serve as a broker for our butter, and they have great expertise in this. They are big marketers of dairy products around the world, and that was the objective.

Furthermore, I guess it is probably the only place that we could sell that kind of volume all at once and get rid of it, because there were other smaller buyers that were knocking on our door, but none of them were as big, and furthermore in selling to the New Zealand Dairy Board, which is close enough to government that it is not a private concern, we would be able to avoid being taken to the GATT.

Mr. DOWNEY. Does New Zealand or their private dairy board have any say over what we do with our butter that we have stored?

Secretary BLOCK. That we export?

Mr. DOWNEY. Yes.

Secretary BLOCK. No, not privately what is exported.

Mr. DOWNEY. I mean what we store. I mean if one afternoon we have sold them all of this butter, the New Zealanders, and then we want to go out and start marketing it to some of their potential customers?

Secretary BLOCK. We have an agreement with them that we will not enter the international market without permission from them until the end of June next year, I think it is.

Mr. DOWNEY. Let me ask you about that. Does that make sense to you? Is that good U.S. policy, to allow New Zealand basically a veto over who we sell our butter to?

Secretary BLOCK. I think it made good sense at the time.

Mr. DOWNEY. Is it still good sense?

Secretary BLOCK. Yes, I think it is still good sense now, because they bought that volume of butter only with the understanding that we would not move in the next day and sell to the very markets that they intended to sell the butter to, and they would not have bought that butter if we would have maintained the right to move in and take these markets away from them before they could sell.

Mr. DOWNEY. Let me ask you another question. Why are they the only people who can sell butter in foreign markets? Why can we not make some of these deals ourselves? Why should we be put in the position where we have to make a private marketing agreement with another country that gives them some say over where we sell reserves of dairy products in this country? What is unique to their ability that they have that we do not have to do this sort of thing? Why could we not have sold the butter ourselves to the Russians or these other people?

Secretary BLOCK. Well, we could have sold the butter to a private broker or anyone who would buy it, and they would in turn broker it to anyone in the world. That was a possibility. Keep in mind the butter is not very good butter, necessarily. Some of it is, and some of it is not. It has been around a long time, and we really need to move it someplace, and this was an early consideration made.

Mr. DOWNEY. We are not selling bad butter, it is just not good butter?

Mr. ANDERSON. It is salted butter, and the world market, the United States and the British Commonwealth countries are really the only countries that deal in salted butter. There is no market for salted butter. This butter was, I think, in 68-pound bulk packages salted. A lot of it was dating back to 1979. An analysis was made of the world market. We have obligations under the GATT. The GATT says you cannot undercut, you cannot displace markets. We felt that we knew that the only market out there was Eastern Europe and the U.S.S.R. For foreign policy reasons we decided not to sell directly to the Russians, and when we looked at the market there we did have an offer from the New Zealanders. It protected our GATT commitments of not going into the world market subsidizing and undercutting. We met with our trading partners, the European Common Market, and consulted with them, and it was really from an international trade point of view and from our obligations under the GATT the best situation.

Mr. DOWNEY. Let me ask about this a little more. People in my district wanted to know at a town meeting why they could not buy the butter. They make cookies in my district, and they would love to have that.

You said for foreign policy reasons we did not sell the butter directly to the Eastern European countries or to the Soviet Union. Let me try to make this simplistic analogy. We will sell them the grain to bake the bread, but if they want to butter the bread they have to buy the butter from New Zealand. Is that basically what we are saying?

Secretary **Block**. All we are saying is that there is a difference between selling subsidized products to the Soviet Union and selling products at the world market price that are not subsidized. There is a difference there, and whether that difference is a big enough difference to say that we should have sold the butter to the Soviet Union or should not have sold it, that is a judgment decision.

Mr. **Downey**. But was that your judgment, Mr. Secretary, to make? Could we have made more money by selling the Russians the butter directly than we did by selling it to the New Zealanders who eventually sold it to the Russians?

Secretary **Block** It was my earlier recommendation that we sell it to a private concern that would sell it to anyone in the world but, as we all know, the Department of Agriculture does not run all the Government, and in this case there were other opinions that prevailed and there were foreign policy considerations, and I concede that is not my responsibility.

Mr. **Downey**. I understand that, but what are the foreign policy considerations that allow us to sell them the wheat but not the butter? Just tell me simply so I can answer a constituent who tells me, well, we are prepared to sell the Russians all the wheat they need, but we are not going to sell them butter.

Secretary **Block**. Subsidy is the answer. One is subsidized and the other is at the world market.

Chairman **Gibbons**. I think the gentleman from New York asked some good questions.

Mr. **Downey**. The people on Long Island, there are not any big wheat farms out there, and very few dairy cows, and they have real trouble understanding this as I think you can appreciate. I happen to think that if we sold them both the wheat and the butter I would not have any problem with that. I think I can explain that if we are making money off it. What they have some trouble understanding is why we sell it to one person to sell it to another.

Mr. **Frenzel**. Would the gentleman yield?

Mr. **Downey**. Of course.

Mr. **Frenzel**. Your question about what kind of shape was the butter in, whether it was good or bad butter, how long can we store butter? How close was this to the point that you had to sell it or whatever? What was that consideration? Was this something you had to unload?

Mr. **Anderson**. We think about 3 years or maybe a little more. We are not sure exactly how long on it. We would not have had to unload it but because we had not unloaded some of the cheese yet that we still have and some of the nonfat dry milk, but we are looking for places to sell these products somehow to get rid of them.

Mr. **Frenzel**. What was the average age of the butter that we sold?

Mr. ANDERSON. The one thing that New Zealanders took started with the oldest butter in stock and took that and it was 100,000 tons of the oldest butter the CCC held.

Mr. FRENZEL. Was that 1979 stocks?

Mr. ANDERSON. It dated back to May of 1979.

Mr. FRENZEL. So it was about 2 years old.

Mr. DOWNEY. It is not like wine. It does not get better with age.

Mr. ANDERSON. I think the other thing you have to remember is that there is no market for it in its current state as salted butter, so what the New Zealanders are doing with the butter is taking it to New Zealand, converting it to butter oil, which is the only way of getting the salt out of it, using that butter oil to fill some of their contracts for recombining operations in the Pacific, Southeast Asian area, Latin America, and then this is freeing up fat in New Zealand to produce butter to export, say, to the Soviet Union or to Eastern Europe or whatever.

Mr. DOWNEY. It is on that subsidy point that I want to be clear in my own mind because I really do not understand this very clearly. You said the difference between selling them wheat and selling them butter is a question of subsidy. If we had sold the butter to the Russians at the world market price could we not have made up some of the cost of the subsidy that we have paid the farmers?

Mr. ANDERSON. That was not an option we had of selling it to the Soviet Union directly.

Mr. DOWNEY. Because of foreign policy considerations?

Mr. ANDERSON. Yes.

Mr. FRENZEL. And it was salted butter, is that right?

Mr. ANDERSON. Salted butter.

Mr. DOWNEY. So it was not so much a question of subsidy versus nonsubsidy, it was simply a question that the administration did not want to sell butter to eastern European countries and to Europe. That is really the issue, is it not?

Mr. ANDERSON. They do not want to sell a subsidized product.

Mr. DOWNEY. But if you sell the product at the world market price you have in fact made up for some of the subsidy, have you not?

Secretary BLOCK. Keep in mind though that we would have been selling it, right or wrong, to the Soviet Union at a price lower than our own consumers could buy the butter. That is a little hard to explain.

Mr. DOWNEY. That is even harder to explain.

Secretary BLOCK. But we are in real problems. You have got to admit it is a dilemma. There is not an easy answer to it.

Mr. ANDERSON. We took this butter at an average price of about $1.42 a pound and the world market price is somewhere between 90 cents to $1 a pound so even if you sell it at the world market price you have got to have butter that is packaged, unsalted in pound packages, or whatever the market calls for. This butter would have had to be converted so that you would be only getting about two-thirds of your price back anyhow, and the price to New Zealand was somewhere around the 70-cent-per-pound level. Given it was the oldest butter and given it was salted and in bulk form it was discounted, really, into the market. We do not think we would have moved that butter even if we would have put it up for bids.

Mr. DOWNEY. I appreciate it. I think that it is somewhat clear.

Chairman GIBBONS. It is a slippery substance, is it not?

Mr. Conable.

Mr. CONABLE. Mr. Chairman, I do not have any questions. I am sorry not to have been here at the beginning of the testimony. I understand your testimony has been excellent, Mr. Secretary, and we are most grateful for your coming up here. Agriculture is one of the most troublesome areas of trade, terribly important to us but, of course, constantly afflicted by the problem of subsidy both at home and abroad, and we understand you have a very difficult course to follow in marketing American commodities around the world in an appropriate way, and I appreciate your answers about the butter deal to Mr. Downey.

Secretary BLOCK. Thank you.

Chairman GIBBONS. Mr. Pease.

Mr. PEASE. Thank you, Mr. Chairman, and Mr. Secretary. Welcome. I am afraid I am going to have to get you back to butter again. I hate to have that subject dominate this discussion, but I am interested in it as well. You keep saying that there is no market for salted butter, not much of a market in the world. Are we capable of producing unsalted butter? Why do we not buy unsalted butter from our farmers if that is where the market is?

Mr. ANDERSON. Well, that was discussed when we had the hearings. Mr. Harkin had some hearings on the butter sale.

Right now the CCC specs on butter are for salted butter and we take into inventory salted butter because that is the product that is produced commercially here in the United States. We have only been in the export business—we keep forgetting this—on the dairy products 3 times in the last 20 years. One was in the early to midsixties when we had a surplus, the other was in the early seventies when New Zealand was hit with drought, and currently the situation that we are in right now. So we have never been traditional exporters of dairy products and our programs have been geared basically to the domestic side and the specs are to take butter which is produced in bulk here domestically and it is salted butter. The issue came up as to should we not change that, should we not be buying unsalted butter so that we could take advantage of the world market if the opportunity came up, and I think the ASCS people who are involved in it are addressing that issue and have addressed that issue to Congressman Harkin in the hearing that he had. So it is being looked at by the Department now.

Secretary BLOCK. It is being looked at, but we have a couple of problems with it. One of them is apparently our butter makers have been making it this way and are not really prepared to change, and too, another problem is if we start making this unsalted butter then the butter that we get rid of could be this new unsalted butter that we are making, but we are not getting rid of our oldest butter, we are getting rid of the new butter, and the old butter is what we want to get rid of, so it is not an easy solution. Unsalted butter deteriorates faster, too.

Mr. PEASE. I think as you may be aware in the House and Senate we both adopted amendments to facilitate the distribution domestically of butter through senior citizen feeding sites and child and nutrition sites and food banks. Hopefully that will maybe help get rid of some of the stock.

Secretary Block. Thank you.

Mr. Pease. One little detailed question on the butter sale. I understand at the time New Zealand bought the butter that Ireland was bidding on the butter also and for some reason the Department did not negotiate a sale to Ireland. Can you tell us the background on that?

Secretary Block. Mr. Anderson has the details.

Mr. Anderson. They did make an offer to buy some butter at the time, but it was for unsalted new butter. In other words, we would have had to develop a program that would have converted somehow or brought into CCC storage unsalted butter at that point. Plus the bid that we got from the Irish Dairy Board was actually below what New Zealand paid us by some $50 a ton. So we did consider the Irish offer. I believe I recall it was for something in the neighborhood of 40,000 tons of butter and it was at a lower price and it was not utilizing our oldest butter.

The New Zealanders took that oldest butter as is at the warehouse in the United States whether it was Philadelphia or Kansas City or the west coast. It was all one price wherever it was located for the oldest butter.

Mr. Pease. Secretary Block, I would like to go a step backwards from export sales of butter and try to figure out how we are going to slow down the accumulation of butter surpluses. You touched on that earlier today. I gather you feel that neither the Senate nor the House version of the farm bill will accomplish that purpose.

Secretary Block. Well, I am very much concerned about the House version because the House version provides for an increase in support level next October 1 and I am afraid that that is certainly going to encourage more milking and more dairying rather than discourage it.

The Senate version has a chance of bringing the situation under control. At least it does this. It freezes, in effect, the support level at $13.10 per hundred to the dairyman and it stays there. It just stays there until we see the accumulation of stocks come down below a certain level which is $750 million spent a year on Government purchases. With inflation going up eventually that will discourage dairying. I am not sure how fast it will discourage it, however.

Really, all your livestock industry and your grain producers, when you overproduce something, if you raise too many hogs, and I am a hog raiser, then the price of hogs goes down and that tells me that I should not raise quite as many, but you need some kind of a message in the dairy industry that the price of dairy products has got to go down at a bare minimum. It should not go up. That is our concern.

Mr. Pease. There was an amendment on the House floor as you know to make the dairy subsidy less attractive. Now I am not an expert at all on agricultural policy, and I have relatively few dairy farmers in my district, but it seems to me that if you have a policy which requires the support price to go down and down as the surplus level goes up and up that it accomplishes the purpose eventually, but at a very high cost to the farmers, a lot of dislocation and monetary loss. It seems to me there must be some way, whether we have to go into the tobacco allotment system or whatever, to try to bring down the number of people who are dairying or the number of cows without this draconian system of reducing the support price even below 70 percent.

Is there an alternative other than just reducing those support prices?

Secretary BLOCK. I do not think that there is a better alternative than the market system and the market system sending the signal to the producer. What you are talking about is some kind of a government control system. I do not know, you are asking me and I think the only alternative would be some kind of government control system where you could offer a bonus if they kill three cows, something like that, but you know they are going to kill the three worst they have and bring in four heifers. Farmers know what they are doing. They are smart. They are going to take advantage of anything to make money if they can. They have to, and there just is not any system that works much better than just letting the market work, realizing that during low-price times it is painful. We all live with them occasionally, and when it happens it is not any fun.

Mr. PEASE. One last question. I understand that President Reagan is of the opinion that the Soviet economy is so bad that the Soviet citizens are reduced to eating sawdust. Do you have any information to corroborate that?

Secretary BLOCK. I do not have any information to support that.

Mr. PEASE. Earlier it was mentioned that foreign policy considerations occasionally enter into matters affecting agricultural export policy. It seems rather curious to me that daily at the State Department we see pronouncements about the Soviets being our mortal enemies and we have to spend billions of dollars for new defense weapons because of the Soviets, and here is a situation where at least according to the President the Soviets are eating sawdust, and yet because of our adherence to the principles of a free market we allow them to buy wheat which will alleviate that hunger problem of theirs. Is that really an overriding principle even beyond our own national security?

Secretary BLOCK. I think that as I look at the trade opportunities in the Soviet Union and whether we should or should not trade with them, I am sure there are some people that think we should not and some who think we should, but I feel that it is to our great advantage to trade with them, because if you want to look at it from one point of view it is a natural transfer of their resources to the United States to buy all of this food, and that much of their resources could not be converted to arms and munitions if that would be their desire.

I understand that they have about $30 billion of foreign exchange that they take in, and they will spend over $10 billion on agricultural food products this year. It has cost them a great deal to buy these food products, and I think it is just to our advantage to make these sales. And furthermore, if we do not sell to them someone else will. I was told by the Canadians that all of these products can easily be transshipped if we are not going to sell to the Soviet Union. Someone else will take a rakeoff and make something out of our products. Grain just flows like water around the world, and unless you have broad-based support from the grain-producing countries to embargo something you are not going to get it done anyway.

Mr. PEASE. I appreciate that explanation. I have a little difficulty at my town meetings explaining to people why it is that we help out the Soviets when they are supposed to be our mortal enemies.

Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Vander Jagt.

Mr. VANDER JAGT. I do not have any questions. I am sorry I was not here to hear the statement. I will read it as soon as possible.

Secretary BLOCK. Thank you.

Chairman GIBBONS. Mr. Bailey.

Mr. BAILEY. Yes, Mr. Chairman; a very quick and easy question.

Mr. Secretary, what are world grain stocks like right now, wheat, for example, high, low, relative to the history?

Secretary BLOCK. This last year the production is somewhat in excess of the year before worldwide. I think wheat stocks are up about 5 percent. I am not sure of the exact number. We have quite a bit of wheat worldwide, but I am optimistic on the sales of our wheat. The exports are moving very well in wheat and the Argentines have a poor crop of wheat coming on. They originally projected 9.2 million metric tons and they are now talking maybe down to as low as 7.

Mr. VANDER JAGT. I have read that.

Mr. BAILEY. I have read that if the United States really withheld, as a matter of policy, wheat from world markets or had a consistent policy of withholding wheat from sales to the Soviet Union and that kind of thing that there is a great deal of marginal land worldwide that would come into production. I am sure you do not have those figures off the top of your head, but could you, if that is so, first of all, comment and bring that into focus for me. You know, what kind of acreage are we talking about, where, what countries, what percentage, and how marginal is that cost per acre or whatever that they are talking about? I have heard figures as low as a few dollars, $1 a bushel or so that they could try to work on. And then lastly could you just comment, and I apologize, you have probably referred to this already, but, on the Soviet situation, and lastly on world rice supply. I am sure Mr. Gibbons probably asked this question, but on U.S. rice export policy and subsidies on selling rice in Asia. Did you ask that question, Mr. Chairman? If so, I think if the Secretary will comment.

Secretary BLOCK. I don't have the details on the world production potential, but it is very simply demonstrated in countries like Europe, like the Common Market; they are now producing for export and if they did not have these artificially high supports, they would never be doing anything like that.

It brings land into production, every little backyard, every little corner here and there; land that people never thought of producing on; they start irrigating land that is not economical to irrigate except under high-price-support conditions and all we have to do is have artificially higher prices.

I don't know how high that might be. If that is what you would like to know, I really don't know. But if you add $1 beyond what the world market price is, I don't think there is any question but that it is going to bring in a fair amount of production.

It wouldn't happen overnight.

It will take a couple of years or 3 years, but it will come on pretty fast.

Once they bring this other production on, then it is there and they are obligated, in a lot of cases, to keep farming it, especially if they put investments into the land and irrigation structures and then they are there to compete with you.

Another example is Argentina. Because of the Soviet grain embargo, Argentina moved in quickly to fill the void that we left and within that short period of time they increased their exports by some 40 percent, plowed up new lands and put them into production and it was not a big increase of price, but they got a little bit of a premium, more than they would have otherwise, so they had national policy to expand production of farm products. It is a very competitive world and people will move right in and take advantage of it.

In 1973, we all saw how Brazil came in with soybeans and now they are a major, our biggest competitor in supplying soybeans around the world.

Before that they were not anything in the soybean market, but when we embargoed soybeans to Japan Brazil decided, now, here's our chance. These kinds of actions we all have to pay for.

It is surprising our memory is so short.

On production in the Soviet Union, I think we are all aware that they do have a poor crop. They have not reduced their livestock numbers of any consequence. They have kept their livestock numbers up and are holding to that and will be importing substantial amounts of grain.

They have been buying heavily in our market, as well as a large amount in other markets. We have offered 15 million metric tons and I think originally they said they would probably buy at least 10.

They may buy 15, too. We don't know, but we think it is going to be a big market for us this year and certainly should be a record sales year to the Soviet Union.

It just happens that that is the one country in the world that has a terribly short crop and we are the country in the world that has the biggest crop, a record crop.

The question about rice, I don't know what the specific question was on rice.

Mr. **Bailey**. I think with all due deference to the other members, we have a vote on the floor. I can get that from you later. I can call someone on your staff or something.

Mr. **Frenzel**. Mr. Chairman, could we have unanimous consent to put questions to the chairman for the record?

Chairman **Gibbons**. Yes, sir; we will do that. I have some too.

Mr. **Frenzel**. May I be permitted one comment?

Chairman **Gibbons**. Certainly.

Mr. **Frenzel**. I told the Secretary that we had done a fair amount of traveling in pursuit of export expansion. Everywhere we go we find the Foreign Agricultural Service is outperforming our other representatives abroad and aggressively promoting sales of American goods abroad.

They are not perfect, of course, but they are miles ahead of our other representatives so whatever you are doing with those folks, keep on doing it, because they are splendid representatives of this country and of your Department abroad.

Secretary **Block**. Thank you. I appreciate that compliment and I will pass it on to them and they will work even harder, I assure you.

Chairman **Gibbons**. Mr. Secretary, we are going to let you go now because we have got another vote on and we want to get to Mr. Rashish next, but we do appreciate your testimony.

I personally applaud the kind of policy you are following and I will try to help you implement that policy.

Thank you very much.

Mr. Rashish, if you would just come up and wait a little while, we have got to go vote. We have an interesting operation going on on the House floor right now.

[Recess.]

Chairman **Gibbons**. I wonder if we could come back to order now, please, and let me try to make some plans for all of those that are here.

We next have Mr. Myer Rashish who is the Under Secretary of State for Economic Affairs.

After that Mr. Lovell and after that Mr. Weidenbaum.

After Mr. Weidenbaum, we will take a little break and come back at 2:30. I hope that we will have a chance to get a little nourishment in the meantime, but I intend to go right straight on through until we finish with Mr. Weidenbaum and we will tell the panel that begins in the afternoon to come in at 2:30 rather than whatever time they had expected to come in.

Mr. Myer Rashish is an old friend of ours. He is now the Under Secretary of State for Economic Affairs.

He has overcome a lot because he was a staff member here for many, many years, and despite all of that, he has been able to go out and redeem himself and do a fine job for this Government.

We are proud of you, Myer, and we want to salute you and welcome you back.

You may proceed as you wish. We will make your statement a part of the record at this point and let you proceed.

STATEMENT OF MYER RASHISH, UNDER SECRETARY FOR ECONOMIC AFFAIRS, DEPARTMENT OF STATE

Mr. **Rashish**. Thank you, Mr. Chairman. I appreciate your very hospitable introduction.

I am delighted to be here, awkward as it is for me to be sitting on this side of the desk.

Mr. Chairman, I have submitted for the record a longer version of my testimony and with your permission I would like to read an abbreviated version.

Chairman **Gibbons**. Certainly.

Mr. **Rashish**. Mr. Chairman, you have my admiration for the expansive hearings that you have undertaken on U.S. trade policy.

Let me note immediately that the importance of the subject, not only to our country's economic well-being, but also to the prospect for real economic development around the globe, fully justifies the time and effort you have devoted to it.

The impressive list of witnesses is, in itself, testimony to the importance of trade as an element of our international economic policy.

I will not try to explain U.S. trade policy per se to a group that has already heard from Bill Brock, nor will I try to provide an economic justification for free trade which you will hear from Murray Weidenbaum this afternoon.

Having heard the questions put to Secretary Brock, I would just as well forego any questions on the agricultural aspects.

Rather, I would like to focus on the foreign policy perspective in trade policy, a perspective which I find all the broader from my position at the State Department.

While undeniable, it is the foreign policy angle that is least appreciated by virtually all the other actors, whether in the executive or legislative branch of the Government, or in the private sector, in the formulation of trade policy.

The United States recognized the importance of trade to the reconstruction of Europe and Japan after World War II.

The United States has been the leading proponent of a freer and more open trading system in the post-war era.

Economic and political freedom, including the ever less restricted flow of goods and services among countries, has produced a world of unprecedented prosperity, albeit with vast differences among countries.

Trade has its rewards, it also has its problems. Most of those problems devolve on the relations between nations; that is, on foreign relations.

As the foreign sector grows in importance to the total U.S. economy, simultaneously the potential for conflicts grows and the intersection of trade policy and foreign policy expands.

Allow me briefly to elaborate on three aspects of our trade policy which have required most of my attention in recent weeks.

They are East-West economic relations, trade and economic development and relations with our major trading partners, Canada, Japan, and the European Community.

Turning first to East-West trade relations, the administration's trade policy toward the Eastern bloc, indeed, our overall economic relationship with the East, cannot be divorced from our broad political security objectives vis-a-vis these countries.

As a result, our trade policy toward the East contains some basic and significant aspects which do not characterize our trade policies toward other countries.

Essentially this is due to the political military situation in which we find ourselves today.

In the first instance, and most importantly, the Soviet Union and its Warsaw Pact allies remain the principal threat to Western security.

This prevents us from being able to deal with the Soviet Union and Eastern Europe as we can deal with most other countries in the world.

Our economic policies must support our key objectives of deterring Soviet adventurism, redressing the military balance between the West and the Warsaw Pact, and strengthening the Western alliance.

Economic relations must reflect and reinforce our political goals of influencing the behavior of Communist governments in ways which serve the vital interests of the United States and its allies.

In formulating our economic policies, we must also keep in mind that trade may enhance Soviet military capabilities directly and transfer technology not otherwise available which may make a significant contribution to the military.

East-West trade also contributes more broadly to Soviet ability to support military programs at levels that Western countries find increasingly difficult to match.

Furthermore, certain economic relations with the East may lead to levels of dependence which increase Western vulnerability to political influence and coercion by the Soviet Union.

On the other hand, our trade ties offer certain opportunities. There are, of course, the obvious benefits to our economy from increased exports.

In addition, we must always keep in mind that our economic relations may offer an opportunity to influence future Soviet and Eastern European economic and political behavior.

Keeping these considerations in mind, it is very important that the United States systematically review our policies regarding economic relations with the Soviet Union and Eastern Europe.

I would stress the importance of achieving an acceptable balance between our security and our commercial interests.

The United States does not have a monopoly in most areas of high technology or even food production. We must work with our allies to achieve a common perception of the security dimension in our economic relations with the Soviet Union and Eastern Europe.

The President opened discussions to that end with his colleagues at the Ottawa Summit.

We are planning to followup with a high level meeting of COCOM later this year, the first such policy review in several years.

Within the U.S. Government I have been asked to chair a senior interdepartment group to coordinate the various issues in the East-West economic field now in train.

Turning now to relations with our major trading partners, I will briefly touch on Canada, Japan, and the EC. Trade with these countries constitutes a majority of total U.S. trade.

We trade in similar products—from agricultural goods to sophisticated machinery. We are all mature economies—suffering from varying degrees of sclerosis which impairs our ability to adjust to changes in patterns of trade.

Effective consultations are essential to the health of these relationships. In the case of Japan, I led the U.S. delegation for semiannual subcabinet consultations, supplemented by the work of a trade subcommittee, chaired for the United States by Dave Macdonald, and which will meet again in September.

The consultations with Japan are now on the same footing as the semiannual high-level consultations which have been held with the EC for over a decade.

In addition, our regular meetings at the OECD provide a useful forum for discussions of general trade issues primarily affecting developed countries, for example, trade in services and export credits.

I turn first to Canada. The ties between the people of the United States and Canada are probably as extensive as in any bilateral relationship in the world.

Our mutual involvement cuts across virtually all facets of both our societies.

For many years, the United States has made efforts in many forums to support an open international investment system and to minimize Government intervention in the decisionmaking process related to individual investments.

We believe that Canadians have benefited significantly from the open climate that has traditionally existed between our two countries. However, Canada's policies since the midseventies have been moving in an increasingly restrictive direction.

The Foreign Investment Review Agency has made entry, expansion, and diversification of U.S. companies in Canada problematic.

Let me step back for a moment to the process of formulating U.S. policy on these issues.

We must evidently start with the nature of the United States-Canadian relationship.

Canada is a full partner in the leadership of the free world; it has assumed responsibilities to and for the global economic system.

That is the essence, or one might say the spirit of the economic summits; the last one having taken place in Ottawa; their raison d'être, if you will.

We look to Canada to formulate its policy consonant with those responsibilities; for our part we accept inevitable differences in approach and we must respect Canadian values.

On several tough issues we are in the middle of a solution. For both sides, flexibility and communication must be the watchwords if we are to avoid irreparable damage to the relationship.

In discussing Japan, there is a tendency to concentrate on Japan's persistent bilateral trade surplus with the United States since the midsixties. The reason for this is largely structural, the goods the U.S. imports from Japan match Japanese exports more closely than American exports match Japanese import requirements.

Special temporary conditions such as U.S. inflation, high U.S. interest rates, a weak yen and strong dollar, and a slowed Japanese growth rate can exacerbate the imbalance.

Countries need not be overly concerned about bilateral trade, or current account surpluses, or deficits as long as their overall international positions are sustainable in the long term.

The United States has enjoyed modest current account surpluses for the past 2 years and so far in 1981, though we anticipate falling into deficit on current account for next year.

Japan's current account has been in deficit for the past 2 years, but is expected to strengthen impressively in 1982 after this year's estimated $7 billion surplus.

Large economies like the United States and Japan must be conscious of the impact of their economic policies on each other, on the rest of the world, and on the global trading system.

Japan appears to be increasingly concerned to find ways of preventing its trade surpluses with the United States and EC from reaching levels that would strengthen protectionist forces.

The Trade Subcommittee I referred to earlier and the Commerce-chaired Trade Facilitation Committee will be actively engaged in that effort.

Japan's Ministry of International Trade and Industry [MITI], for example, is working to encourage the expansion of manufactures imports.

At the same time, we must, on our side, place Japan's trade surplus in the context of our overall payments position and our own efforts to improve our trade and productivity performance.

Turning briefly to the EC, the growing surplus we have enjoyed with the European Community since the early seventies has helped offset our deficits with Japan and other countries.

This surplus reached an alltime high of $17.4 billion this year.

While our balance in 1981 is likely to remain favorable, our trade relations with the Community will not be easy.

Unemployment, which has been increasing in all 10-member states, reached a communitywide level of 8.3 percent in September.

Protectionist pressures are strong in many sectors.

One area of continuing concern will be the adverse effects of the EC's Common Agricultural Policy on U.S. agricultural trade.

As the Community disposes of more and more of its excess production through subsidized exports, we will have to insure the rights and interests of our exporters are protected.

Steel is another problem area, where we face exceptionally high levels of imports at a time when Europe is cutting back employment in an effort to modernize its industry.

These and other trade problems will require close attention and careful management in the months to come.

On the subject of trade and development, with respect to the developing nations of the world, the importance of trade policy is derived directly from the key role of trade in the development process.

As President Reagan explained in his recent speech in Philadelphia: "developing countries earned more from exports to the United States in the last 2 years than the entire developing world has received from the World Bank in the last 36 years."

The barriers to trade in our markets are among the lowest in the world.

The United States maintains few restrictions and our customs procedures are very predictable.

In 1980, 51 percent of our imports from developing countries entered duty free.

The recent summit at Cancun, which was just concluded, provided an opportunity for the United States to discuss ways that trade can be an even more effective instrument of growth.

We plan to follow up vigorously and seriously the constructive proposals which emerged from Cancun; for example, to cite a few:

In our preparations for the GATT ministerial, we intend to give a prominent place to issue affecting trade with developing countries. Our goal is a more integrated and better disciplined international marketplace, in which access to export markets for all countries is improved.

Further, we plan to consult extensively and in depth with developing countries on the GATT ministerial.

Our goal here is twofold:

First, we believe that such consultations are essential if the meeting is to succeed in pointing us toward mutually beneficial solutions to the world's trade problems.

Second, we believe that it would strengthen both the GATT system and the developing countries' trade potential for them to become more actively involved in the GATT process.

The administration intends to seek an extension of GSP, the generalized system of preferences. This program is relatively modest in relation to our total trade, but all the evidence suggests that it has been an extremely useful incentive to developing countries to rely more on their own energies and on the efficiency of the international marketplace as a source of the economic growth they need.

Most fundamentally, of course, the Cancun meeting underlined the importance of the free trade posture the administration has adopted. There are many other reasons why we must keep our market as open as possible, but the impact of our trade policies on developing countries is one we must not forget.

Before I leave the theme of our trade relations with developing countries, I would like to underline one area to which we have been devoting particular attention in recent months.

As you know, the political stability of the Caribbean basin area has been very much on our minds, and we are convinced that more vigorous economic expansion is an essential factor in encouraging healthy political trends.

Bill Brock has already mentioned that we are working on an innovative, integrated package of proposals to encourage their development through trade and private investment.

Although it is somewhat off the subject of these hearings, perhaps there would be some interest in a few words on President Reagan's participation in the Cancun Summit meeting last week.

I was impressed by the constructive spirit that prevailed in Cancun. There was an excellent exchange of views among the participants.

In contrast to other international conferences in recent years, cooperation, not confrontation, was in the air; the United States was sought after, not isolated.

We think this is a very positive development. We hope it marks a new era in relations with developing countries where we can concentrate on concrete problems while avoiding rhetorical excesses.

The plenary sessions focused on four specific issues: food and agriculture, trade, energy, and finance. These were identified as the four framework topics for the Cancun meeting.

I have already addressed the trade issues. Perhaps a few words on the other three:

On food security and agricultural development, the heads of state expressed great concern about the problem of hunger. There was a substantial degree of agreement about some useful steps for combating it, including the importance of the developing countries' drawing up national food strategies, an interim role for food aid, assistance in developing effective agricultural programs in developing countries, and the importance of international trade conditions in the agricultural areas.

The problem of energy was described as a global and not a North-South problem.

The participants underlined the need for regional and global cooperation and for more private and public investment in the energy area.

The discussion emphasized the serious problems developing countries face in meeting their heavy oil import bills.

There was, in addition, a wide-ranging discussion on monetary and financial issues with a good exchange of views on the role of private capital markets and international financial institutions.

The only piece of business that required a decision at Cancun was the followup that should be undertaken. The question of followup has sometimes been identified as global negotiations.

On this, the result was unclear.

While there was agreement that global negotiations should be pursued if certain conditions were met, there was no consensus on how to proceed to lay the basis for productive negotiations.

The United States laid out four understandings which we considered would be necessary to our participation in a global negotiations process.

These were:

First, the talks should have a practical orientation toward identifying, on a case-by-case basis, specific potential for or obstacles to development which cooperative efforts may enhance or remove.

On our side, we would suggest an agenda composed of trade liberalization, energy, and food resource development, and improvement in the investment climate.

Second, the talks should respect the competence, functions, and powers of the specialized international agencies upon which we all depend, with the understanding that the decisions reached by these agencies within respective areas of competence would be final and that we should not seek to create new institutions.

Third, the general orientation of the talks must be toward sustaining or achieving greater levels of mutually beneficial international growth and development, taking into account domestic economic policies, and

Fourth, the talks should take place in an atmosphere of cooperative spirit similar to that which prevailed in Cancun, rather than one in which views become polarized and chances for agreement are needlessly sacrificed.

Regardless of how the procedure unfolds, we are hopeful that a new beginning of increased international understanding has been reached.

In the future we may hear less about the need for new international economic orders or grandiose schemes for wealth distribution from rich countries to poor.

Instead, we can hope that the dialog with developing countries can focus increasingly on real issues, such as the need to liberalize international trade, dealing with world energy problems, and facing the difficulties relating to petrodollar recycling.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF MYER RASHISH, UNDER SECRETARY FOR ECONOMIC AFFAIRS, DEPARTMENT OF STATE

It is a pleasure to be able to speak to you today on U.S. trade policy. As you know, Mr. Chairman, I feel especially strongly about working with this Subcommittee after the years I spent as its Staff Director.

The ambitious scope of these hearings is itself an indication of the growing important of trade to the United States. The world trading system spins over our entire globe a web of relationships which are both competitive and complementary. This inter-weaving of interests brings with it numerous advantages, but also, inevitably some problems. Trade policy is thus an integral element of foreign policy. As the Cancun Summit graphically illustrates, today's foreign policy is increasingly confronted with economic issues in which trade policy is an inextricable part.

These trade policy issues are of vital importance to every American. At U.S. urging, trade liberalization, economic freedom with an international dimension, characterizes the post-war era in economic relations. We made great progress in the recently concluded Tokyo Round in eliminating many remaining tariff barriers to trade expansion. We now must take advantage of the opportunities presented by reductions in tariffs and elimination of non-tariff barriers by effectively promoting American trade. We must also ensure that in doing so we safeguard our crucial security interests. We must find ways of assisting the developing countries to utilize more fully the opportunities which trade offers them for rapid progress in development. We must make progress in securing international action to reduce further the non-tariff barriers to trade, particularly in the service area. We must face up to the hard problems in particular product areas: textiles, steel, EC agricultural commodities, automobiles. And we must look behind trade in goods and services, to facilitate an undistorted flow of investment among nations.

In considering the growing importance of trade to the United States, it is useful to consider the evolution which has taken place. Trade has, of course, always been important; indeed, taxes on imported tea and a famous tea party in Boston harbor helped to launch us on the path to nationhood. The continental expanse of America has provided a market more accessible and more attractive and more compatible than distant markets overseas. The focus of most of our businessmen for much of our history has been inwards, a disposition which became increasingly pronounced in this century.

That focus has changed to an extraordinary extent in the short space of one decade. In 1970 the ratio of U.S. exports to GNP was 4.3 percent, a percentage still low enough to be considered of marginal importance. Exports have grown since then at an unprecedented pace and have doubled in importance to our economy. Today the ratio of exports to GNP is 8.2 percent, and that percentage is destined to increase still further in the decade of the 1980's.

What has happened in the United States has happened elsewhere. Countries which were already heavily engaged in trade have become even more so. Countries which by reason of underdevelopment or large internal markets were minor trading nations have become trade oriented. Indeed, except for the poorest nations, virtually all countries have seen trade become of substantially greater importance to their economic growth and well-being, with their exports generally equal in value to 20–50 percent or more of their GNP.

The rapid growth in world trade brought with it not only unprecedented prosperity, but also specific problems of adjustment. Our exports are someone else's imports, just as theirs are for us. But when we are confronted with domestic problems arising out of rapid import growth, as we have been recently, it is well to remember that the overall story is one of rapid growth in both the export and the import side of our trade package.

In effect, what is happening in the world economy today—slowly, unevenly, hesitatingly—is a repeat of U.S. history of 200 years ago. Restrictions on trade provide short-term advantages; in the long run they retard growth. A continental trading economy is more efficient and more productive than one composed of numerous states; a world trading economy is more efficient yet. By 1979 the average tariff levels in the developed countries stood at 10.6 percent, a dramatic drop from post-war levels. The cuts agreed to in the Tokyo round of multilateral trade negotiations will further reduce tariff levels to 4.5 percent by 1987. Though the world is not yet one market, we have progressed farther towards that goal than would have seemed possible 35 years ago.

It is evident, I believe, that all the agencies concerned with trade policy agree on its importance and on the need for continuing liberalization of the world trade system. The special role of the Department of State is to mesh our trade and economic interests with our foreign policy. Our role is based on a belief that unless our trade policy and foreign policy develop in tandem, neither will achieve its objectives. It follows from this that the State Department is actively involved both in formulating our approach to the trade policy issues we believe will loom large in the coming years and in devising and implementing measures to resolve our problems with particular countries. We pay especially close attention to the settings in which we deal with other countries in pursuing our trade interests, whether multilateral forums for consultations such as the OECD; the bilateral economic commissions we have with many countries; or special meetings dealing with topics requiring particular attention, such as the recent Summit at Cancun, and at the September UN Conference on the Least Developed Countries in Paris. From the nadir of protectionism in the 1930's, we have successfully moved to our present relatively open world trading system by recognizing that trade liberalization is an incremental process in which an appropriate political climate in the relevant fora can be as important as the underlying economic realities.

Among the major areas of foreign policy-trade policy interaction are East-West trade; trade relations with the developing countries and integration of the developing countries into the world trading system; non-tariff distortions and barriers, where progress will require multilateral efforts; and problems of food and agricultural trade.

East-West trade involves both strategic and trade considerations. This Administration is determined to insure that economic relations with the East are consistent with broad U.S. political and strategic objectives. The importance that the Administration has placed on a review of economic relations with the Communist world has been reflected in the creation of a Senior Interdepartmental Group (SIG) on East-West Economic Matters. I have chaired several meetings on this group which have dealt with such questions as COCOM controls and Western dependency on Soviet energy sources.

In the trade field as in the political sphere, there are important differences among the Eastern European countries. Not only are they at differing levels of economic development, but some are more open to international trade than others.

Continued economic ties between these countries and the United States and the rest of the world can be in our interest, particularly to the extent that these ties serve to reinforce the East's stake in the orderly functioning of the world economy and to encourage these countries to engage in responsible international behavior. However, we must be vigilant in insuring that this trade does not damage our own security.

In carrying out an East/West trade policy compatible with our political and security objectives, we must work closely with our allies. The United States does not have a monopoly in most areas of high technology and our policies must be coordinated with those of our allies in order to be effective. The COCOM high level meeting agreed to at the Ottawa Summit is an important step in this direction. We need to achieve a common perception of the balance between security and commercial interests for the Western allies as a whole.

The problems of fair trade are peculiarly difficult to deal with in the case of these countries, as the concepts of dumping and subsidies have no place internally in an administered price system, but we must administer U.S. laws in this area. Yet at the same time, some have moved toward instituting a genuine pricing system and effective tariffs; four are members of the GATT. This requires that we make every effort possible to tailor our approach to the individual country.

CHINA

We are also witnessing the emergence of China as a growing factor in world trade. China's exports increased from $8 billion in 1977 to over $13.5 billion in 1979. China's imports grew even more rapidly, from $6.6 billion to $14.7 billion. China's expanded role in world trade poses challenges and opportunities for the world trading system, and for U.S. businessmen and policymakers. U.S. exports to China in 1980 were $3.7 billion, or approximately half our total exports to all Communist countries.

As China expands its trade relations with major trading nations, integrating China more fully into the international trading system will be deserving of careful attention.

DEVELOPING COUNTRIES

With respect to the developing countries, this Administration is deeply committed to the effort to assist these countries in their development efforts. The President's speech in Philadelphia earlier this month spelled out eloquently the complexity of development. It seems evident that trade is one of its major driving forces. Indeed, one might almost go so far as to say that the route to development has been trodden most successfully by a handful of countries which have emphasized trade, and that it is the product of an open trading system and internal policies which make it possible to capitalize on an open trading system. We have a strong record in maintaining an open market. The developing countries supply 44 percent of our imports and buy 37 percent of our exports. Even if one excludes OPEC, the shares are still high—26 percent of our imports and 29 percent of our exports. This is the most dynamic export market we have.

As you know, I returned a few days ago from Cancun, where President Reagan participated in one of the most impressive gatherings ever held of heads of state and government from developed and developing countries. The meeting had been intended as an opportunity for a serious and realistic discussion of the problems of development, without the posturing which so often accompanies highly publicized international meetings. I believe we can take great satisfaction in having achieved this goal.

The President had private discussions with all the developing country leaders present at Cancun. I believe that these meetings and the President's participation in the plenary sessions have done much to dispel the notion that the U.S. lacks a positive approach to development.

The plenary sessions focussed on four specific issues: on food security and agricultural development, energy, money and financial questions, and trade. The discussion on trade took note of the importance of trade and industrialization in the development process. Several participants laid particular stress on price stabilization for international commodities. Many, including ourselves, looked to the proposed GATT ministerial in 1982 as a forum for addressing the trade problems of developing countries in a pragmatic way. The role of GSP was favorably cited. We underlined the benefit the LDCs receive from our very open market.

In the trade area we are working in a number of areas to follow up the constructive proposals which emerged from Cancun.

In our preparations for the GATT Ministerial, we intend to give a prominent place to issues affecting trade with developing countries. Our goal is a more integrated and better disciplined international marketplace, in which access to export markets for all countries is improved. The proposed negotiations on a safeguards code are one area in which we and the developing countries share similar concerns. We also share their eagerness to see GATT expand its effort to reduce nontariff barriers.

We plan to consult extensively and in dept with developing countries on the GATT Ministerial. Our goal here is twofold: first, we believe that such consultations are essential if the meeting is to succeed in pointing us toward mutually beneficial solutions to the world's trade problems. Second, we believe that it would strengthen both the GATT system and the developing countries' trade potential for them to become more actively involved in the GATT process.

The administration intends to seek an extension of GSP. This program is relatively modest in relation to our total trade—3 percent of our imports come in duty free under GSP, or about 12 percent of our imports from non-OPEC developing countries. All the evidence suggests, however, that it has been an extremely useful incentive to developing countries to rely more on their own energies and on the efficiency of the international marketplace as a source of the economic growth they need. We share your concern about the high concentration of GSP benefits among a few countries which are relatively successful in international trade—although I would note that both the competitive need provisions of the law and our graduation policy have brought the percentage of benefits enjoyed by the top five beneficiaries down considerably since the first years of the program. We will be working closely with you in developing proposals for an extended GSP program.

Most fundamentally, of course, the Cancun meeting underlined the importance of the free trade posture the Administration has adopted. There are many other reasons why we must keep our market as open as possible, but the impact of our trade policies on developing countries is one we must not forget.

Before I leave the theme of our trade relations with developing countries, I would like to underline one area to which we have been devoting particular attention in recent months. As you know, the economic health and political stability of the Caribbean Basin area have been very much on our minds. We are convinced that more vigorous economic expansion is essential to a political evolution which avoids violence, bloodshed and repression.

We have had extensive consultations with the countries of the area and with other interested governments—Canada, Venzeuela, Mexico, and a number of European countries—which share our concern. We are developing a series of interrelated proposals designed to stimulate investment, especially in the private sector, and to encourage trade, on which these small economies inevitably must rely in order to experience solidly based economic growth. We hope that this coordinated approach will make a real contribution to the economic development of the area. Other donors also expect to provide parallel support for the area, through whatever means fit in best with their development policies. Making our support economically and politically meaningful may involve some tough choices for the Administration and the Congress. We intend to work closely with you in moving ahead in this area.

OUR OECD PARTNERS

Despite the impressive growth in the developing countries' participation in international trade, the other OECD countries are likely to remain extremely important trading partners for the U.S. Over half our trade is with these countries. As these mature economies expand, they, like us, face the challenge of adjustment in industries which are no longer competitive. They are also devoting increased attention to sectors where we have enjoyed a strong competitive lead in world markets, services and high technology.

Effective consultations are essential to the development of more effective relationships with our trading partners. In the case of Japan, it has been agreed that Sub-Cabinet consultations will be held semi-annually, and that the work of the Sub-Cabinet group will be supplemented by meetings of a Trade Subcommittee which was launched in September. We expect this arrangement will make it possible for us to address trade issues in a more systematic and continuous fashion. Semi-annual high-level consultations are also held with the EC. In addition, our regular meetings with other OECD members have provided a useful forum for discussions of trade issues, e.g., trade in services.

In discussing trade with Japan, there is a tendency to focus on the persistent Japanese surplus in its trade in goods and services with the U.S. since the mid-1960s. The reason for this is largely structural—the goods the U.S. imports from Japan match Japanese exports more closely than American exports match Japanese import requirements. Special temporary conditions such as U.S. inflation, high U.S. interest rates, a weak yen and strong dollar, and a slowed Japanese growth rate can exacerbate the imbalance.

Countries must not be overly concerned about bilateral trade or current account imbalance as long as their overall international positions are sustainable in the long-term.

The United States has enjoyed modest current accounts surpluses for the past two years and so far in 1981, though we anticipate falling into deficit for next year. Japan's current account has been in deficit the past two years but is expected to strengthen impressively in 1982 from this year's moderate surplus.

Large economies like the U.S. and Japan should be conscious of the impact of their economic policies on each other, on the rest of the world, and on the trading system as a whole. Japan appears to be increasingly concerned to find ways of preventing its trade surpluses with the U.S. and EC from reaching levels that strengthen protectionist forces. I referred earlier to the Trade Subcommittee, under the aegis of the U.S.-Japan sub-cabinet consultations, which will tackle this problem and head off troublesome issues before they generate irresistible pressure for protection. Japan's Ministry of International Trade and Industry, MITI, for example, is working hard to encourage the expansion of manufactured imports. At the same time, we must on our side place Japan's trade surplus in the context of our overall relatively favorable payments position and the knowledge that government action designed to eliminate our bilateral trade deficit with Japan, if it has the effect of restricting trade, would result in a net loss of economic prosperity for both regions.

The growing surplus we have enjoyed with the European Community since the early 1970's has helped offset our deficits with Japan and other countries. This surplus reached an all time high of $17.4 billion this year. While our balance in

1981 is likely to remain favorable, our trade relations with the Community will not be easy. Unemployment, which has been increasing in all ten member states, reached a Community-wide level of 8.3 percent in September. Protectionist pressures are strong in many sectors. One area of continuing concern will be the adverse effects of the EC's common agricultural policy on U.S. agricultural trade. As the EC disposes of more and more of its excess production through subsidized exports, we will have to ensure the rights and interests of our exporters are protected. Steel is another problem area, where we face exceptionally high levels of imports at a time when Europe is cutting back employment in an effort to modernize its industry. These and other trade problems will require close attention and careful management in the months to come.

We will also have to work with major trading partners on some of our more general trade concerns.

In an era of relatively low duties, non-tariff barriers act as the major impediment to international trade. One of the major accomplishments of the Tokyo Round was to make a start at dealing with these non-tariff barriers. The "codes" agreed to during these negotiations are being put into effect. We need to make them work as effectively as possible and to develop greater international discipline, and a body of case law and agreed procedures and rules in such key fields as export subsidies, dumping, and international bidding for government procurement.

The United States is much interested in trade in services, as this is one of the most dynamic areas of our economy. Our 1979 export receipts from services totaled more than $76 billion, almost a fourfold increase over the 1971 level of $19.1 billion. Services account for 27 percent of U.S. exports and employ 70 percent of the non-agricultural U.S. work force.

Investment performance requirements and incentives which are increasingly being adopted by a number of countries, largely in the developing world, are another source of potential trade distortion harmful to our economic interests. Our goal is the maintenance of an open investment system—one that is based to the extent possible on a common framework and understanding of the basic ground rules. In instances in which investment is attracted by incentives including protective tariffs, which alter the marketplace's allocation of resources, the trade consequences must be weighed along with the investment results. Performance requirements which mandate a specified level of exports likewise may distort trade patterns, requiring a balancing of interests. Though formulation of "rules of the game" will not be easy, with U.S. overseas investment totaling $192.6 billion by the end of 1979 (on a balance-of-payments basis), the desirability of attempting to do so seems evident.

The close links between our trade goals and our ability to cooperate with our key trade partners are only one example of the interdependence of our political relations and U.S. trade and economic policy. We believe that the President's economic recovery plan will lay the foundation not only for a more vigorous U.S. economy but also for stronger and healthier ties with our allies. In this type of an international environment the United States can more effectively pursue its broader foreign policy goals.

The Subcommittee will be going over our trade policies in great detail in the next few days. It is evident that in the post-Cancun period details will change and new initiatives will be developed. Yet there is a constancy in the sweep of trade policy and objectives which will endure. I and the Department look forward to cooperating with you now and in the months ahead.

Chairman GIBBONS. Mr. Secretary, we appreciate your testimony.

Let me talk about Cancun and the follow-up.

I would be very disturbed if we moved trade negotiations out of the GATT and moved them into UNCTAD or the U.N. or any of those places.

I would actively resist such an operation.

I want us to follow the most-favored-nation principles in these negotiations.

I think anything else would be disastrous. I never have been an enthusiastic supporter of GSP. I always look at it with a very skeptical eye. Frankly, while it is not directly related, of course, to Cancun, in dealing with our close neighbors, Canadians and Mexicans and anybody else who fits into that category, I don't see how we can arrive at any special deal or consideration for them just because they are close.

I think we still should be bound by our most-favored-nation principles and by the rules of GATT.

It really makes no difference to me whether Mexico is a member of GATT or not, but I don't think Mexico should be allowed to say we are not a member of GATT, therefore, we deserve special consideration.

Those are just a few of my views right off the bat and I would like to have you comment on them.

Mr. RASHISH. I don't have very much trouble with your views, Mr. Chairman. I would join you in resisting any activity that would derogate from or subvert the established international institutions that serve us well.

That goes not only to GATT. It goes as well to the International Monetary Fund, the World Bank, postwar institutions which have been the instruments for international cooperation which have contributed capacity to adjust and take account of the changing needs of a changing world environment which have the competence and have the responsibility to deal with these problems.

That posture is central to the position which the United States took at Cancun.

I am happy to say that the spirit of Cancun that I referred to reflected a more serious and more positive orientation toward the questions of solving the problems of development within the framework of the competent institutions than has been the case for many years in the debates that have been going on in the United Nations and other bodies over what is called the North-South dialog.

So, as a general principle, I am with you 100 percent and that is the position of the Reagan administration.

I am happy to say too that some of the editorial comment that I have been reading since we got back from Cancun has shown great sensitivity to that issue, even in such journals as the Washington Post, and the New Republic, in its lead editorial this week.

When the Wall Street Journal takes that position, we are not too surprised, but when some of these other journals do it, it is very reassuring.

What Cancun did in this respect, as I have already indicated, was mark a change in disposition and attitudes. Perhaps it is because the problems that are confronting the world economy and the developing countries in the world economy have become so difficult and daunting that people no longer are prepared merely to talk about these issues in a confrontational and ideological way, but are prepared to address them in a practical way with the perspective of solving problems.

Now, what we have to do with the spirit of Cancun is distill it and see what we can do in practical terms to address these problems through international cooperation, but with emphasis on these institutions such as the GATT in the trade area.

Now, addressing some of the other points you raised on GSP, I can appreciate your skepticism with respect to GSP. The fact is, I suppose, that as we proceed along the path of trade liberalization, GSP becomes a wasting asset.

That is to say, the margin of preference if you provide for duty-free treatment of LDC's, the margin of preference and therefore the benefit the GSP accords decreases as import duties decline generally through the process of international negotiation of the GATT as with the case of the multilateral trade negotiations.

But it is not a terribly expensive arrangement for us. There is a process for review, the eligibility of countries for selective graduation of products and so on so that is an adjustable process as well.

In volume terms, GSP accounts for only 3 percent of our total imports, but it has acquired a certain symbolic value. It has some concrete benefits for selective countries and so on. On a straight cost/benefit analysis it does not strike me that it is something we would wish to abandon.

In fact, I think the President has already committed himself so I have no choice on the matter. We have to derive whatever value we can from it over the years and there is some value to be derived from it.

On the question of the GATT, MFN, and the role of the LDC's, I share your perspective.

Article I of the GATT is the article that stipulates most-favored-nation treatment. It is the threshold principle of the GATT. It seems to me that as I indicated in my statement that it is both to the interests of the world trading system as a whole as well as to the interest of the individual developing countries to become full participants in the GATT process.

The direction of U.S. policy on this subject is to encourage less developed countries to become partners in trade cooperation through the GATT system and to encourage their membership in the GATT.

With respect to departures from MFN, there are legal constraints in U.S. law that inhibit such departure so that I think these are protective measures that ought to be safeguarded.

Chairman **Gibbons**. Mr. Frenzel?

Mr. **Frenzel**. Thank you very much, Mr. Chairman.

Mr. Secretary, we are grateful to you for coming over here and presenting this interesting testimony.

Like the chairman, I have some concerns about Cancun. Although you have read us your four conditions, the second of which specifies the continued use of existing institutions, and I assume this means IMF and GATT principally, it seems to me the very fact that you gave forth the phraseology of negotiations really does imperil those institutions. Those of us on this committee and the Banking Committee who have jurisdictions over these other agencies, I must tell you frankly, are very nervous about it. Particularly, the statements of the head of the Indian Government following Cancun caused us even more distress. There is a good deal of nervousness abroad that while the President escaped alive, maybe in the eyes of the press, and perhaps America, for the long term, he did not escape alive.

Can you give us a little more consolation than you did in your statement about this?

Mr. **Rashish**. Yes, sir.

I feel reasonably comfortable that the President not only escaped alive, but did very well in Cancun.

Cancun, as I indicated, was a very different kind of event from comparable events of the past.

I think that is the most important part of Cancun.

Now, on global negotiations, that is a long and tortured story.

But, as you recall, at the Ottawa summit language was agreed to in the communique that indicated that the seven summit countries were prepared to participate in a mutually acceptable process of global negotiations, lower case on the g and n, offering the prospect of constructive results, that is at least the spirit of the language.

The use of the lower case, which has been the object of some humor as a matter of fact, at one point, given the view of our Canadian hosts on global communication I thought they might print the communique all in capital letters to avoid the distinction.

Anyway, the use of the lower case g and n, global negotiations, was designed to distance ourselves from the Global Negotiations that started with the resolution of the General Assembly in late 1979, Resolution 34-138, and to show a certain hospitality to the idea that while there may not, in fact, be negotiations, there is some need to engage a dialog in a global form, a universal form over the problems of economic development.

Cancun does, I suppose, if you look at the statement of the cochairman, move us another inch or two toward the Global Negotiations, capital G, capital N, because the text reads capital G, and capital N, and also it talks about the U.N., which the Ottawa summit does not talk about.

But we have stipulated the condition. We have said it has to be a mutually acceptable process and we have to be satisfied that there is some prospect for good and constructive results.

What is more, more and more countries, including members of the G-77, the LDC caucus are accepting that, those conditions, those perspectives.

I can assure you that we are not going to engage in a U.N. process of global negotiations that does not satisfy our conditions and needs and we are prepared to be isolated on that except that I don't think we will be.

I think that after Cancun there is a better appreciation of the position. But I would not mind at all if you, Mr. Frenzel, and members of your committees, your opposite numbers in the Senate, kept after us and kept on reminding the administration as to what the pitfalls are.

We do have a positive approach to this question of dialog on the problems of development and our positive approach does, in fact, emphasize the central role of the specialized agencies such as the Fund, the Bank, the GATT, the FAO on the field of food.

So, as far as our orientation is concerned in the administration I think it is clear how we proceed to negotiate on our differences without compromising our principles is a matter that is going to have to be worked out in the weeks ahead.

Mr. **Frenzel**. Well, I thank you, Mr. Secretary.

I raised the question following the chairman's remarks because I wanted to be sure that you knew our strong feelings and to be reminded. It was, I think, in many respects a grand gesture to go to Cancun to open the dialog in a restricted sort of forum and I hope you are right that that spirit will spill over into whatever large or small GN's that occur in the future.

But I think that those people with whom we are negotiating are going to have to understand that criteria No. 4, that cooperative spirit, has to go before all else and I think we should proceed in this thing with great care. We want you to proceed but we don't want you to step over the line and we do not want to be writing trade regulations in the U.N.

I think that you are very aware of that.

I would like to refer to your comments on page 14 of your statement with respect to United States-Japan trade relations.

Mr. **Rashish**. That must be my longer statement.

Mr. **Frenzel**. Yes, sir; that was your longer statement. It was not the one that you presented here verbally. It strikes me as being either terribly diplomatic or terribly naive.

Mr. **Rashish**. I would prefer the first.

Mr. **Frenzel**. I don't blame you.

This subcommittee goes to Japan more frequently than it would like because of the difficulties of that recurring trade deficit and your statement there appears to treat that deficit in a kind of cavalier fashion and to place too much reliance on Japanese allegations that they are going to straighten everything out any minute or that the dollar is going to get weak and change things around. Particularly it places a lot of reliance on MITI, which has proved to be a paper tiger with respect to breaking down any of the barriers that are erected and defended by other departments, particularly agriculture in Japan.

And one of the reasons that this committee and others tried to move to reduce the role of State is because of that very attitude. We don't take the position that one of our former Appropriations Subcommittees did, that the State Department exists to pass cookies at receptions. But we are nervous about that kind of an attitude that says, well, they are working on the problem and don't worry, folks.

We have seen these persistent surpluses. The chairman and I have been sitting here with our fingers in the dikes while this Congress throws up such things as our auto problem, the meat amendments to the farm bill, and others. It is exactly that deficit with Japan that is causing that kind of reaction in the Congress and we can't ignore it and I don't think you can either.

I think you are being much too easy on them in this statement and I would like to have you comment.

Mr. **Rashish**. I would like to plead for diplomacy as the inspiration for the words on that page.

Some members of the Appropriations Committee may have said the State Department engages in passing cookies. After hearing Jack Block's statement I want to assure you that they will be butter cookies from now on.

Chairman **Gibbons**. Salted butter cookies?

Mr. **Frenzel**. At market prices.

Mr. **Rashish**. Since I have been at the State Department my blood pressure has gone up and I can't use salt anymore.

The question about the bilateral trade deficit I wanted to raise the point that I thought it could be subversive of intelligent economic policy to focus exclusively on the bilateral trade.

We live in a multilateral trading and payment system and one man's surplus is another man's deficit and to try to balance out payments or trade on a bilateral basis would result in the destruction of the system.

Mr. FRENZEL. I think we would agree to that.

Mr. RASHISH. You would agree with that.

Now, at the same time clearly there is a kind of a symmetry in our trade relations with Japan. There is a perception that is based, I am sure, on a fair amount of reality that the U.S. market is a more open market of Japanese goods, industrial goods, agricultural goods or whatever, than the Japanese market is to United States goods.

And we have to work at the business of getting that market opened up, reducing the reasons for complaint by American exporters and to the extent that we are successful in the bilateral trade balance, all the better.

We have made some progress that you are more familiar than I am with, the NTT agreement of the past administration and semiconductors more recently.

When we had the last meeting of our United States-Japan consultative group which reviews the whole range of issues in our economic and to some extent political relations at the end of September, I opened the meeting with this statement to our Japanese counterparts which went along the following lines: that we face a crossroads in our trade relations and the direction we take could influence the whole tenor and character of the world trading system particularly at a time when the economies of industrialized countries are in something of a slough.

That Japan had a responsibility to that system that she has not yet fully discharged and that Japan was in fact faced with two options, either that Japan should be perceived as realistically, honestly, and straightforwardly opening up its market progressively or that Japan would come under increasing pressure for restrictive action in the markets of the other industrialized countries.

And we went into that at some length. Now, that is at the level of principle. How do you pursue, and I think there was an appreciation on the part of the Japanese. We were extremely candid with them. We were even a bit tough-minded with them.

The State Department can be tough-minded occasionally. And the question is how do you follow up or how do you work off that principle, that perception?

I indicated in my statement that we have got this Bilateral Trade Subcommittee that Dave Macdonald chairs that will meet from time to time. The full committee meets only twice a year. The subcommittee will meet frequently.

We are going to exert pressure, quietly, discreetly and effectively. The Trade Subcommittee intends to focus on specific product areas and I know that Lionel Olmer, the Under Secretary of Commerce who chairs that, has quite a roster of issues which he has been scrubbing with his Japanese counterparts.

The reference to MITI in my statement was not adequate in the sense that I understand that the Prime Minister has in fact made a statement along the same lines that Japan has to take measures to encourage the expansion of manufactured imports into the Japanese market.

Again, that is a statement of principle and in our daily contacts with the Japanese we have to keep working at the specifics of how the Japanese market can be made more open not only to manufactured imports but also the imports of agricultural goods.

And in the end, it seems to me that it is inescapable and unacceptable that the Japanese would be the beneficiaries of such trade expansion and trade liberalization.

Mr. FRENZEL. Thank you. Your statement seems far more realistic to me than the written material presented. I think the fact that we wrestle with it here every day is that there is a perception which I believe has a fairly accurate base. The perception is that one of our trading partners is feasting on us in a relatively open market while denying us opportunities in its market. But that country has already been distressed because of its decision to restrain shipments of autos because this Congress literally forced it to do so, and there will be other distresses in the future unless we change that.

We agree with you, I think on the subject of bilateral balance but where there are blockages that are artificial I think we have a right to demand that our trading partners restore them.

My concern, and I call it to your attention, is that in the past the State Department has not been very aggressive in this area and sometimes our trade representatives have labored in a kind of a solitary adventure while all the State Department has been interested in is mutual security pacts and other important items that can't be ignored in that particular area and in our whole international relations area. But I am pleased with your answer, and I hope that you will continue to exercise pressure, lest we see the erosion of our whole world trading scheme.

Mr. Chairman, I have run over, and I apologize.

Chairman GIBBONS. Mr. Pease.

Mr. PEASE. No questions.

Chairman GIBBONS. Mr. Rashish, you are probably not going to agree with me now but let me ask you something: What agency of our Government was in charge of the planning of Cancun?

Mr. RASHISH. It was a collegial effort just as the planning for the Ottawa summit was a collegial effort among the various agencies of Government.

For the Ottawa summit I was the President's personal representative known in the trade as the American sherpa, we prepared for that summit.

We had interagency groups that other relevant departments were represented on that prepared the preparatory material. That was essentially the process for Cancun but the lead role being taken, if I were to identify the departments of Government that were most active they would be State and Treasury because the Secretary of State and the Secretary of Treasury were in attendance at Cancun.

USTR played an active role in the preparatory process. Commerce similarly played an active role. The NSC staff played an active role and, of course, the White House staff itself.

Chairman **Gibbons**. Well, you know, we set up the USTR office to be Congress representative in trade and to be the administration's representative in trade. Nobody from USTR has complained to me about it. Maybe I am raising something out of school. Why did you not take somebody from USTR to Cancun?

Mr. **Rashish**. Well, it was not my decision to make.

Chairman **Gibbons**. I know it was not but we don't seem to get the message through to the administration. We want the USTR included in all of these operations where trade is involved. All of us know there is no way we can lift these countries out of the poverty they are in unless we trade with them. That is fundamental. There is not enough money to give to them and it probably would not do any good anyway but trade is the name of the thing that we are going to have to do and the principal person in trade as far as we are concerned, as Congress is concerned, is the U.S Trade Representative.

I don't see why in the world that is not the first name on the agenda after the President. He has got to get on the plane. I don't know why you don't take the USTR and his staff. I don't know why it is not the first name after the President in any of these conferences. I realize there is always a battle in any administration over turf, but I want to tell you we are either going to get the USTR on top of this or we are going to make the USTR so big that he will have to invite the President to get on the plane from now on when we get together to talk about these things. Because what happens is that you all go to these conferences and make a lot of deals or at least get expectations raised to a high point and then you throw it over to the USTR and the Congress to kind of straighten out all this mess.

We have to deal with the constituency back here that is constantly on us about trade matters and we don't get in on the takeoff.

I want to get that message across. I know I probably ought to have Mr. Haig here for this but he was not available. He was invited but I want you to take it back to him. This is a message from the Congress. We want the USTR in on these conferences from now on and I am upset that they were not included in Cancun.

Now, turf battles are turf battles but the Congress is going to sound off a little more. We are going to create such a large USTR that you can't leave him behind from now on unless we get a little better cooperation.

I am sorry to have to lecture to you because you are a friend of mine but maybe the message will get back.

Mr. **Rashish**. I will certainly take your message back, Mr. Chairman, but let me try to offer a partial answer. If I can start in a very personal way by reciting my credentials on the Office of the United States Trade Representative, I was in the White House in the Kennedy administration when the Trade Expansion Act of 1962 was put together and I guess I had more to do with that than anyone else in the U.S. Government at the time.

Chairman **Gibbons**. I appreciate that.

Mr. **Rashish**. It was I who came to Wilbur Mills one day and said, you know how you solve your problem between State and Commerce over who has the call on trade policy, you set someone up in the White House called the U.S. Trade Representative and have him act as the coordinator within the U.S. Government and that is how the U.S. Trade Representative's Office was founded and the provision made in the 1962 legislation which was subsequently enhanced in the 1974 act.

So I have great respect for and a certain paternal interest in the role and I think—and I was also, as you know a charter member of the President's Advisory Committee for Trade Negotiations which advised the USTR and the first elected chairman.

I think the Trade Representative's Office plays a critical role in the making and execution of trade policy in the U.S. Government and it is the emblem, as you said, the symbol of the kind of trilateral cooperation between the Congress, the executive branch and the public, and that is a very important function.

Now, let me say, first of all, that really this may strike you as naive if not diplomatic, but I don't really think there were any turf battles about who showed up in Cancun. That, in fact, as I have seen the process of interagency consultation and it is absolutely essential in the national economic policy field generally and in the trade policy area in particular, to have a very effective interdepartmental, interagency decisionmaking process, consultative and domestic processes.

I have seen it work and I say this without any guile. In this administration I think it has worked damn well. I think the Trade Representative and the Secretary of Commerce, as you know, the Secretary of Commerce chairs a Cabinet Committee on Commerce and Trade and have a very effective working relationship. And I like to feel that the State Department pays a cooperative collegiate role in that process and I think that is the way it worked.

What happens is that the kind of arrangement that where in the Ottawa summit which were represented in Cancun was that the leader, the head of state and government would be in attendance with two ministers and the arrangements that were made for Ottawa were that the ministers be foreign ministers and finance ministers and that got replicated for Cancun.

There were, in fact, in the plenary session in Cancun in the room where the plenary sessions took place there were only four seats per delegation so that that, of course, does not argue for not taking a lot of people along but I think in terms of ministerial representation I think that was the principal conditioning consideration that there was an arrangement that was sort of agreed to by all the parties that would be the head of government.

The policies, the positions that we took both at Ottawa and Cancun reflected the interagency process, preparatory process which was quite extensive. In fact, when I took over at the beginning of this administration as the Special Representative for the summit, in contrast to the way it was handled previously, I institutionalized the process. I made certain that on all the subjects to be discussed in Ottawa there would be interagency groups that reviewed the issues, prepared the working papers and so on and the

STR was fully represented so I don't think there was any question of the STR's participation in the policymaking process and I don't think there is any problem on the part of STR on the positions that were taken either at Ottawa or at Cancun but I will certainly take your observation back with me.

Chairman GIBBONS. Well, I realize that Cancun was rather preliminary and that actually there were no negotiations carried on there but the USTR is more than a negotiator. As far as the Congress is concerned he is the principal person on trade policy. Trade policy is the only way out of this mess we live in because there is just not enough money in the world to finance all of these great ideas that people around the world have. How are you going to rescue the world from poverty except by trade?

All the goodwill in the world and all the monetary policy and everything else is not worth a hoot unless there is some real trade out there. That is why your idea was so good and why we pursue it so vigorously.

If the nations of the world are going to get together and talk about economic success they ought to start on trade, spend lunch on trade and supper on trade and adjourn on trade because the rest of it is just wishful thinking.

The Congress, only with a great deal of effort and a lot of sleight of hand ever gets a foreign aid bill passed and a foreign aid bill, even with all the effort we put into it, is like comparing peanuts to watermelon as far as trade is concerned in size.

So I think that while I am just as interested in solving these problems in a humane and satisfactory manner we are not taking the right people to these conferences. We need to really get down and prove to the rest of the world that we are serious and try to work out these problems.

That is why I lecture you so strongly.

As I say, no one from USTR has even mentioned to me that they were not invited either on the first plane, the second plane, or the last plane to go down there.

I looked over the agenda of who went and I was surprised to see that the USTR was not sitting right at the right elbow of the President because that is what the whole conference was about.

He is the fellow who has got to come up here to Congress and get out of us trade laws that will allow the President and will allow the others in the administration to do the kind of things that are going to have to be done in order to have a policy.

Thank you for your patience in putting up with me. I appreciate it.

Mr. RASHISH. Well, Mr. Chairman, you may have lectured me but I am properly instructed.

Chairman GIBBONS. Thank you, sir.

We will go next to Mr. Lovell.

Mr. Lovell, you are operating under a handicap. The members are hungry and so your statement will be placed in the record as you wish.

STATEMENT OF MALCOLM R. LOVELL, JR., UNDER SECRETARY, DEPARTMENT OF LABOR

Mr. LOVELL. I thank you very much, Mr. Chairman. I really prefer testifying before hungry committees because the members are brief and I can be brief. I do have a summary statement if you will let me present that.

Thank you for the opportunity to appear before you today to discuss the Department of Labor's views on U.S. trade policy. I am convinced that American workers have a vital and growing stake in the trade policy of the United States.

In 1980, merchandise export-related employment was 5.1 million jobs, a 75-percent increase over the level in 1970. In 1980, roughly 2.7 million U.S. manufacturing jobs, or 1 out of every 8 U.S. manufacturing jobs, was related to exports; the comparable ratio was 1 in 12 in 1970.

Trade is also causing shifts among the industries where people work.

In the 1960's and 1970's, exports, and therefore export-related jobs, increased substantially in industries such as power-generating equipment, and aircraft.

By constrast, import competition intensified in such important industries as textiles and apparel, footwear, electronics, and later steel and autos. Import surges of these products helped create serious adjustment problems for the domestic industries and workers producing these products.

It is very difficult to estimate employment related to imports. If one makes some very simplifying and perhaps unrealistic assumptions, then for every $1 billion worth of imports of motor vehicles and parts the direct domestic employment would be 7,800, if these cars were produced in the United States. Perhaps as many as two to three times the number of workers would be involved in supplying industries.

The Labor Department's role in U.S. trade policy development reflects our concern with the relationships between trade and U.S. jobs. The Department participates in all levels of the interagency trade policy committee structure.

We are active in policy development relating to all trade and investment issues. Our contribution to the policy development process is to provide data and analyses on the employment impact of particular policy options.

We also have the responsibility to make sure that the views of organized labor are known and understood by our colleagues in the other agencies. In assuring that the interests of American workers are given full consideration in the interagency process, we seek an appropriate convergence of foreign and domestic economic policy goals.

The Department's Office of Foreign Economic Research provides data and analysis of the effects of changes in trade on domestic employment and earnings. That office produced the President's Report on U.S. International Competitiveness, provided an empirical assessment of the employment effects of the MTN tariff reductions and is currently analyzing the employment effects of investment incentives and performance requirements used by other countries.

One question asked in the committee's letter of invitation to the Secretary concerned the role of labor-management relations as a factor in U.S. competitiveness, particularly in comparison to Japanese industrial relations policies. As part of a cooperative research effort with the Japanese Ministry of Labor, the Department is conducting an analysis comparing labor market policies and processes in the two countries. That analysis will be completed early next year and will include an assessment of the role of labor relations practices.

The Labor Advisory Committee program administered by the Labor Department is one of the principal current vehicles for communication between the executive branch and organized labor. The policy level Labor Advisory Committee for Trade Negotiations and Trade Policy is made up of presidents or senior officials from 49 different unions and various departments of the AFL–CIO.

The most active component of the Labor Advisory Committee system is the Steering Subcommittee which meets monthly.

Topics covered can range from the current status of our subsidies problem with India to the Cancun Summit. Both the advisers and Government officials involved consider it a very constructive forum for exchanging views.

Mr. Chairman, I believe that American workers, who continue to be the most productive workers in the world, despite some impressions to the contrary, have generally benefited from the relatively fair and open trading system that we enjoy today. The goal of this administration's policy must be to build on this system.

Our trade policy priorities for the coming decade must not only aim to enforce the agreements negotiated in the Tokyo round, but also to work to achieve discipline in other areas not currently covered by trading rules.

For example, trade-related investment policies which tend to distort trade are becoming widely used by both developing and developed countries. Achieving rules to prevent the discriminatory and distorting effects of these practices is an important priority.

While corporations making investments abroad may be able to make adjustments to accommodate such practices as local content requirements or export requirements, U.S. workers may be disadvantaged and cannot adjust as easily.

We welcome investment in new productive facilities in this country. Such investment enhances our economic and employment growth. The Department of Labor has such confidence in the productivity of American workers, we wonder why more foreign companies, who enjoy significant sales in the U.S. market, do not choose to produce their goods here.

U.S. trade policy must deal with changes brought about by the dynamic nature of the international economy. While in the long run workers will benefit from an open trading system, in the shorter term, safeguard measures are sometimes necessary to ease problems of dislocation for workers.

With respect to adjustment assistance, the amendments resulting from the Omnibus Budget Reconciliation Act of 1981 came into effect October 1, 1981. They reflect a shift in program emphasis away from income maintenance to placement and employment services and benefits aimed primarily at the permanently unemployed.

The new "substantial cause" standard for certification of worker groups comes into effect for petitions filed on or after February 9, 1982. It is still too early to be precise about the effects of the amendments. Clearly, the lower level and shorter duration of TRA benefits will result in substantially smaller cash outlays than the $1.6 billion in 1980 and the $1.5 billion in 1981.

Therefore, the administration has requested $238 million for TRA in fiscal 1982, and $98.6 million to fund training, job search and relocation under the program in 1982.

Another trade policy priority stems from our increasing trade with developing countries. A significant portion of this trade enters under our generalized system of preferences. The administration has decided, as you know, to seek renewal of our legislative authority for GSP.

I believe that any extended GSP program must contain provisions which will assure a broader distribution of benefits among developing countries.

The committee indicated an interest in the relationship between U.S. productivity and competition. International comparisons of productivity are difficult to make. The best available data show that the United States has a higher output per employed person than other major developed countries, but that the gap is being narrowed. In terms of absolute levels, Japan's productivity was only 68 percent of the United States level in 1980 and Germany's was 89 percent.

On the other hand, the growth rate of productivity in U.S. manufacturing over the period from 1973 to 1980 was lower than that of any of the major developed countries with the single exception of the United Kingdom.

U.S. productivity growth in the future will depend significantly on the success of the administration's programs to reduce taxes as a proportion of income and to encourage private investment. If the administration's programs are successfully implemented, productivity in the private sector could grow at an average annual rate 2½ times as great as that for period from 1973 to 1980.

These increases in productivity will help to improve the competitive position of U.S. industry in world markets and in the domestic market. What is more important, however, is that the increases in productivity will enable the Nation to enjoy greater real income gains in the future.

Thank you very much.

[The prepared statement follows:]

STATEMENT OF MALCOLM R. LOVELL, JR., UNDER SECRETARY, U.S. DEPARTMENT OF LABOR

Mr. Chairman and Members of the Subcommittee: Thank you for the opportunity to appear before you today to discuss the Department of Labor's views on U.S. trade policy. I am convinced that American workers have a vital and growing stake in the trade policy of the United States.

International trade has become an increasingly important factor in the U.S. economy. In 1980, merchandise exports alone were equivalent to 8.2 percent of GNP, up from 4.3 percent a decade ago. The ratio of merchandise imports to GNP was 9.8 percent in 1980, up from 4.3 percent in 1970.

In 1980, merchandise export-related employment was 5.1 million jobs, a 75 percent increase over the 2.9 million export-related jobs in 1970. In 1980, roughly 2.7 million U.S. manufacturing jobs, or one out of every eight U.S. manufacturing jobs, was related to exports; the comparable ratio was one in twelve in 1970.

While these numbers indicate the growing magnitude of labor's stake in trade, they do not tell the whole story. Trade is also causing shifts among the industries where people work.

In the 1960's and 1970's, exports, and therefore export related jobs, increased substantially during this period in industries such as power generating equipment, and aircraft. In power generating machinery, the ratio of exports to shipments rose from 19 percent in 1964 to over 41 percent in 1979.

By contrast, import competition in this period intensified in such important industries as textiles and apparel, footwear, electronics and later steel and autos. Import surges of these products helped create serious adjustment problems for the domestic industries and workers producing these products.

It is very difficult to estimate the employment related to imports. To make such an estimate one has to assume that the production process in the United States will be the same without imports as it is with imports. One also has to assume that cessation of imports will have no effects on exports to other countries. We know this is not the case. If one makes these simplifying assumptions, then for every $1 billion worth of imports of motor vehicles and parts the direct domestic employment would be 7,800, if these cars were produced in the U.S. (Actual imports were $25 billion in 1980). Perhaps as many as two to three times the number of workers would be involved in supplying industries.

The Labor Department's role in U.S. trade policy development reflects our concern over both the magnitude and the composition of our two-way trade. In assuring that the interests of American workers are given full consideration in the interagency process, we seek an appropriate convergence of foreign and domestic economic policy goals.

The Department participates in all levels of the interagency trade policy committee structure. We are involved in the development of policy in the product areas—textiles, steel and autos—and in such broader areas as subsidies, trade related investment performance requirements and trade policy toward developing countries. Our unique contribution to the policy development process is to provide data and analysis on the employment impact of particular policy options. we also have the responsibility to make sure that the views of organized labor are known and understood by our colleagues in the other agencies.

The Department's Office of Foreign Economic Research provides data and analysis of the effects of changes in trade on domestic employment and earnings. In 1980, that Office produced the President's Report on U.S. International Competitiveness which was mandated by Section 1110(b) of the Trade Agreements Act of 1979. The Department also provided the empirical assessment of the employment effects of the tariff reductions negotiated in the Multilateral Trade Negotiations (MTN). We are currently analyzing the employment effects of alternative North American Trade Agreements and of investment incentives and performance requirements used by other countries.

One question in the Committee's letter of invitation to the Secretary, was the role of labor-management relations as a factor in U.S. competitiveness, particularly in comparison to Japanese industrial relations policies. As part of a cooperative research effort with the Japanese Ministry of Labor, the Department is conducting an analysis comparing labor market policies and processes in the two countries. That analysis will be completed early next year and will include an assessment of the role of labor relations practices.

The Labor Advisory Committee program administered by the Labor Department and authorized by the Trade Acts of 1974 and 1979 is one of the principal current vehicles for communication between the Executive Branch and organized labor. The policy level Labor Advisory Committee for Trade Negotiations and Trade Policy is made up of presidents or senior officials from 49 different unions and various departments of the AFL-CIO.

The most active component of the Labor Advisory Committee system is the Steering Subcommittee which meets monthly. Although these meetings are open to all the members of the full committee, it is usually attended by 15–20 research directors or trade specialists from unions interested in trade. Topics covered can range from the current status of our subsidies problem with India to the Cancun Summit. I believe it is fair to say both the advisors and government officials involved, and this includes all agencies in the trade policy field—USTR, State, Commerce, etc., consider it a very constructive forum for exchanging views.

The Labor Advisory Committee system also includes six subcommittees covering various economic sectors and three functional subcommittees concerned with government procurement, standards, and unfair trade practices.

Mr. Chairman, I believe that American workers, who continue to be the most productive workers in the world, despite some impressions to the contrary, have generally benefited from the relatively fair and open trading system that we enjoy today. The goal of this Administration's policy must be to build on this system.

An important part of this program should be the vigorous enforcement of U.S. rights negotiated in the Tokyo Round. In today's world, many nations rely much less on the operation of market forces than does this country. And this tendency appears to be increasing. If we are to promote the growth of our private sector and with it, employment opportunities, we must be vigilant in assuring that other governments do not subsidize or engage in other unfair trade or investment practices which can distort trade flows and jeopardize jobs in this country. The agreement resulting from the Multilateral Trade Negotiations were just the beginning.

Our trade policy priorities for the coming decade must not only aim to maintain what is now on the books, but work to achieve discipline in other areas not currently covered by trading rules. For example, trade related investment policies which tend to distort trade are becoming widely used by both developing and developed countries. Our immediate neighbors to the North and to the South are prime examples. Achieving these rules to prevent the discriminatory and distorting effects of such practices is, in the trade and investment field, an important priority. In interagency discussion of this issue, our role is often to point out that while corporations making investments abroad may be able to make adjustments to accommodate such practices as local content requirements or export requirements, U.S. workers may be disadvantaged and cannot adjust as easily.

We believe that all nations benefit economically from the unhampered flow of investment. We welcome investment in new productive facilities in this country. Such investment enhances our economic and employment growth. From the standpoint of the Department of Labor, our confidence in the productivity of American workers makes us wonder why more foreign companies, who enjoy significant sales in the U.S. market, do not choose to produce their goods here.

U.S. trade policy must necessarily deal with changes brought about by the dynamic nature of the international economy. While we recognize that in the long run workers will benefit from an open trading system, in the shorter term, safeguard actions or such domestic measures as unemployment insurance, can ease problems of dislocation for workers. While these measures may be important, it is the view of this Administration that free market forces provide the best vehicle to facilitate adjustment in affected industries.

With respect to adjustment assistance, the amendments resulting from the Omnibus Budget Reconciliation Act of 1981 went into effect October 1, 1981. They reflect a shifting in program emphasis by this Administration away from income maintenance to placement and employment services and benefits such as training, job search and relocation, aimed primarily at the permanently unemployed. The new "substantial cause" standard for certification of worker groups will go into effect for petitions filed on or after Februry 9, 1982. It is still too early to be precise about the effects of the amendments. Clearly the lower level and shorter duration of Trade Readjustment Assistance (TRA) benefits will result in substantially smaller cash outlays than the $1.6 billion in fiscal year 1980 and the $1.5 billion in fiscal year 1981. The Administration has therefore, requested $238 million for TRA payments in fiscal 1982, and $98.6 million to fund the activities of training, job search and relocation under the program in fiscal year 1982.

Another trade policy priority stems from our increasing trade with developing countries. Indeed, the less developed countries as a group are now a more important trading partner for the United States than the European community, Canada, or Japan. In 1980, if one omits the OPEC nations, developing countries received 29 percent of our exports, equal to $64.5 billion and contributed 26 percent of our imports, equal to $62.3 billion.

A significant portion of these imports enter under our Generalized System of Preferences (GSP) under which certain imports from developing countries are duty-free. The Administration has decided to seek renewal of our legislative authority for GSP. I believe that any extended GSP program must contain provisions which will assure a broader distribution of benefits among developing countries. Sixty percent of the benefits of GSP which is intended to improve the competitiveness of all developing countries go to five of the most advanced of these nations. A more equitable GSP program can help meet the special needs of the developing countries.

The Committee indicated an interest in the relationship between U.S. productivity and competitiveness. One assertion that is often made is that U.S. industry is becoming less competitive because of poor productivity performance compared to other countries. International comparisons of productivity are very difficult to make. The best available data (provided by the Bureau of Labor Statistics) show that the United States has a higher output per employed person than other major developed countries, but that the gap is being narrowed. In terms of absolute levels, Japan's productivity was only 68 percent of the U.S. level in 1980 and Germany's was 89 percent. On the other hand, the growth rate of productivity in U.S. manufacturing over the period from 1973 to 1980 was lower than that of any of the major developed countries with the single exception of the United Kingdom. (The figures are: average growth rates of 1.7 percent annually for the United States, 2.2 for Canada, 7.2 for Japan, 4.9 for France, 4.8 for Germany, 3.5 for Italy and 1.4 for the United Kingdom.)

U.S. productivity growth in the future will depend significantly on the success of the Administration's programs to reduce taxes as a proportion of income and to encourage private investment. If the Administration's programs are successfully implemented, productivity in the private sector could grow at an average annual rate two and one half times as great as that for the period from 1973 to 1980.

These increases in productivity will help to improve the competitive position of U.S. industry in world markets and in the domestic market. What is more important, however, is that the increases in productivity will enable the nation to enjoy greater real income gains in the future.

That completes my prepared testimony. If the Committee has any questions, I would be pleased to answer them.

Chairman GIBBONS. Thank you, Mr. Lovell. You mentioned in your statement about foreign local content and export requirements and the fact that we perhaps need better international rules and understandings on these matters.

Tell me, what has the Department of Labor been doing about this?

Mr. LOVELL. Well, we have been discussing in the Cabinet council meetings and the joint administration groups of which we are a part, our concern and have discussed with them various alternatives that we have.

As you know, the administration would prefer that no country have these requirements. I think we have to examine carefully what we do ourselves in relationship to our trade policies with other nations.

But it is a subject of considerable concern.

Chairman GIBBONS. I think it is a very serious problem, and I hope that you will be very vigorous about it. I think that, as far as the GATT is concerned, it ought to be outlawed. I think they are a subsidy.

Mr. LOVELL. It is certainly a nontariff barrier.

Chairman GIBBONS. There is certainly a very serious nontariff barrier. Export requirements are an indirect subsidy and local content requirements amount to a quantitative restriction.

I don't know why we haven't been vigorously pursuing this. Maybe it is not the diplomatic thing to do, but it certainly does make good sense and I don't think anybody should be allowed to get away with it. I hope that either this govenment will bring an action itself or that people who are adversely affected will be encouraged to bring action to take appropriate steps.

Mr. LOVELL. This country has suffered job losses as a result of these efforts in other countries.

Chairman GIBBONS. Well, surely. It is a very unfair trade practice. I would think that somebody would vigorously move in that area. We have got to stamp it out before it gets any worse or it is going to be accepted and then we will have a heck of a time getting rid of it.

So I would hope that you or your Secretary would be very vigorous in insisting that this be done. I don't want to see us get into that practice of local content because I think it is one of the worst sorts of trade restrictions we can get into. I think we ought to be very vigorous in demanding that we have access to other nations' markets.

Mr. LOVELL. I agree.

Chairman GIBBONS. Have you all done any kind of study as to who is practicing this and to what extent they are practicing?

Mr. LOVELL. Yes, sir, we have. For example, we have a preliminary study of Mexican and Brazilian requirements for their auto industries and the study indicates that these requirements may have reduced U.S. employment opportunities in the auto parts industry by almost 4,000 jobs.

Chairman GIBBONS. Well, I want you to know you have got a friend here and I will be glad to do what I can to help.

Mr. LOVELL. I appreciate that, Mr. Chairman.

Chairman GIBBONS. Let me ask you about trade adjustment assistance. This has to come up for renewal again here soon. What are the administration's plans?

Mr. LOVELL. Well, as you know, a number of actions have been taken to reduce the costs of these programs.

Chairman GIBBONS. Yes, sir. As a follow-on, what are we going to do?

Mr. LOVELL. The administration has not completed its judgment as to where we are going to go in 1983 on TAA. We will be forming that judgment——

Chairman GIBBONS. I think this is a very important issue. I hate to try to compare anything that is Japanese to ours, because for a lot of reasons, no reflection upon anybody, they are a lot different nation than we are, but they have been able to automate and to robotize part of their industry because their labor has no fear of losing its employment.

They apparently have better labor-management relationships than we do because they apparently do not have the hostile type system that we seem to have run almost to the same extreme that the English have.

Adjustment assistance is not just related to trade, it is a part of it. A working person has a reasonable expectation as long as he works hard and honestly that he is going to be able to maintain his income, his job.

I have been impressed with the way the Japanese have been able to do it. I don't know that I completely understand how they do it, but they do it for about 30 percent of their labor force, perhaps the most sensitive part, those involved in industrial operations.

And I would hope that over in the Labor Department you will give some serious consideration as to how we can better improve this adjustment process that is really a part of life.

It is a part of our physical as well as our economic lives. I think that we could spend more time trying to find ways that we could do it harmoniously rather than over the bargaining table with everybody increasing the ante all the time.

I don't want to see us get in the ridiculous position that the English have gotten themselves in. I would much rather see us work some of these things out for everybody's benefit in a more cooperative way.

I realize that is extremely complex and I don't even have a solution for you, but I would encourage you all to make that the top part of your agenda. It ties in to trade adjustment assistance. Maybe as you concentrate on trade adjustment assistance, maybe you will begin to see ways that these other things can be worked out.

Mr. **Lovell**. It is far more, of course, than trade adjustment assistance and it is probably one of the most fundamental trade adjustment problems that this country will face throughout the rest of this decade.

The whole question of redundant experienced workers, whether it is in auto or steel or electronics or rubber, is a very serious one and as we move into a new era of industrial production techniques with the advanced techniques that we have, there is going to be a continual churning in the work force.

I think there will be a very substantial increase in the total number of jobs. There are going to be people who are thrown out of work in one area that have to compete for work in other areas. So I agree it is a tremendously serious and difficult problem.

I do think that the process of collective bargaining in the United States is substantially different from that in England, but different from that in Japan, too. Really, ours is perhaps an intermediary approach, but it is unique, in a sense, to us.

But it has the capacity and we have already seen some indications of it, of making some of the adjustments in the American steel industry, for example, that conceivably can approach over the next 10 years some of the results, not some of the techniques, but approach some of the results that the Japanese have had.

Chairman **Gibbons**. Well, as I say, I don't think that Japanese techniques would work in this country because we are vastly different people than they are. It is no reflection upon them and certainly no reflection upon us.

But I don't know if the American automobile industry is ever going to compete with the Japanese automobile industry on a competitive basis. There is no way that we can do it with the same amount of people in the labor force.

Mr. **Lovell**. You are absolutely right.

Chairman **Gibbons**. I am sure you are sick of hearing it. I am almost sick of telling it. I went through a Toyota plant in which they take steel in on one side and bring out a painted undercoated body on the other end and it is hardly touched by human hands.

Those robots that work on those Japanese cars were designed here in the United States. They have taken the monotonous, repetitious and the hazardous jobs and put them in the hands of a robot and they apparently did it with the approval of the people that work in the plant.

I say that. I can't prove that. I didn't read anything about any violent strikes or anything else. If you try to do that in this country, I am afraid we would have a terrible unrest.

Mr. **Lovell**. Well, not in the automobile industry. I think that the automobile workers and the UAW and the various companies are working very cooperatively together. I think that the cooperative relationship in that industry today is really remarkable in historic terms. I think both the companies and the union are being very realistic, very pragmatic. I think the companies are finding far more cooperation not only from the unions but from the workers.

There was something I heard on the television recently about a plant that voluntarily, on a negotiated basis, reduced wages very substantially, and gave up work practices that had been years in developing. You are seeing this all through the whole industry.

You are finding both at Ford and at General Motors, I don't think they call it quality circles, but it is the same concept, with workers and supervisors working together in the same fashion. So it is a much different industrial relations or labor relations atmosphere than 30 years ago, when I was in the industry.

Chairman **Gibbons**. I saw on television the other day, and I realize that sometimes they have to treat things with an exaggerated touch or not a real accurate touch because they move so fast through the news, Kawasaki up in Wisconsin, because of a drop-off in production and a drop-off in demand for their snowmobiles and the products they are making, instead of laying the American workers off as has been the custom in our country, Kawasaki up there was, in effect, keeping the workers on. I don't know whether that will ever catch on in this country.

I don't know whether that is a good idea or not, but I know it is in keeping with the Japanese tradition in their industry not to throw people out when conditions are bad.

Frankly, I don't know enough about how all these systems work, but I think it is something that we need to pay some serious attention to and adjustment assistance was a crude effort to try to do that. It was obviously so crude that it blew up in our face and it didn't work.

Let me ask you, in the Department of Labor what is going on in the way of research?

Mr. **Lovell**. It is a major effort. It is one of the major targets that we have that we are looking at in terms of our whole human resources development philosophy. I assure you there is no more important area of concern than this one.

Chairman **Gibbons**. Let me ask you, is management being brought into these discussions at all?

Mr. **Lovell**. Well, I can assure you that management is tremendously interested.

Chairman **Gibbons**. I know they are interested, but are they being brought in? Are they being challenged to try and think out some of these kinds of things?

Mr. **Lovell**. Yes, sir. We hold meetings with a large variety of management groups. I met with the Business Roundtable, an association of business manufacturers. I was with the Chamber of Commerce this morning talking about these problems and others, but continuing dialog is going on and it has to be not only with management but it has to be with the top labor officials, too.

We are talking with a number of the officials of the AFL-CIO about these and other problems.

Chairman **Gibbons**. Well, I am interested in seeing every American who wants to work have an opportunity to work and some reasonable assurance that their job is not just going to evaporate from under them.

It is obvious to me that our present system is not working and that is one of the reasons that we seem to be falling behind. I can't think of anything that our Government could be doing as far as the workingman is concerned that is not more important than that, because I don't want to see the working portion of our population thrown into the constant necessity to strike, strike, strike, or to use ultimate weapons when I think something else is appropriate.

Mr. **Lovell**. I must say, I don't think American industry can blame its lack of productivity growth on bad labor relations. Maybe in some instances, but I think that the lack of capital investment, some of the excessive regulations we have had and the slowness, in some instances, to convert to the latest production techniques as a management judgment, not one that is prohibited by unions, is more the cause of the slowing down on productivity growth.

Not that anybody is positive exactly what it is but I do not think that this lack of cooperation between management and labor would be a primary factor.

Chairman **Gibbons**. Mr. Lovell, I don't know enough about it to dispute what you say, but I constantly get people from management telling me, well, we could do that but it is these silly work rules that the unions impose upon us.

Now, I realize that they are, to some extent, defending their own inadequacies or perhaps they threw away too much at the bargaining table but that is a constant complaint that I get from our industrial side and for people observing our industrial side that the work rules and the work attitudes are just not what they ought to be.

Now, that may be sorry management trying to alibi out of the incorrect decisions. I know that management always blames all of their economic ills on imports, even when imports aren't the problem in all of the cases, and I am afraid they perhaps do the same thing on labor, but it is a constant tune that comes back time after time and again.

I could get a better product, I could get a better price, but my workers really won't work and they are not interested and their work rules are too restrictive.

Mr. **Lovell**. I think to some extent that is right to a degree, Mr. Chairman. I guess my only comment is that I have noticed over the last 2 years a very dramatic change. I think what you say was absolutely true 2 years ago, and I think that the economic realities are beginning to seep in and I do notice a change.

Chairman **Gibbons**. Thank you, Mr. Lovell. I appreciate it.

Mr. **Lovell**. Thank you, Mr. Chairman.

Chairman **Gibbons**. Mr. Weidenbaum, we are delighted to have you here. We are sorry we caught you at such a bad time.

Mr. **Weidenbaum**. Mr. Chairman, it is always a pleasure to appear before your committee and I would like to read a very boiled-down version of my statement.

Chairman GIBBONS. All right, sir.

STATEMENT OF HON. MURRAY L. WEIDENBAUM, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

Mr. WEIDENBAUM. I want to stress three basic points: Growth in imports is no less important than export growth; our trade or payments balance vis-a-vis one country is just a part of our total, longrun picture, which should be the focus of our concern and policy; the basic principle of, and benefits from, freedom of the marketplace applies as much to international investment as to flows of goods and services.

The case for freer trade is rooted in a basic economic law: The principle of comparative advantage. The arguments in favor of freer trade are supported by plenty of historical evidence. We had a fine example in the sixties: The acceleration in world trade and economic growth in the sixties following a sharp, mutual reduction in tariff barriers.

I anticipate that this trend, and the benefits which flow from an open trade system will continue. But only if we can successfully resist the calls for protectionism by narrow-minded interests, both here and abroad. In short, much of the progress which has come about through the reduction in tariffs in recent years is threatened by the increased use of quantitative restrictions and other nontariff barriers.

At this point, let me state the administration's trade and investment policies. I will start with a summary of our statement on trade policy or "white paper" that was carefully developed last summer.

First, the white paper places trade policy within its proper context, as part of the economic recovery program. As our white paper makes clear, free trade is both philosophically and pragmatically the international counterpart of our domestic economic program. Both in domestic and international markets, we are trying to reduce government-imposed barriers. Open trade contributes to lowering inflation. Free trade is basically a consumer issue, one of the most important. Open trade improves the efficiency with which we produce goods and services meaning more growth and improved living standards for Americans. In so many ways free trade makes for a healthier economy. A short version of our trade policy was given by the President in his recent address to the IMF and World Bank. He stated we are committed, "to policies of free trade, unrestricted investment and open capital markets."

Let me play the professor for a moment. There is a close, but not generally appreciated, connection between imports and exports. The only way in the long run to increase our exports is to increase our imports. Our exporters need to find foreign buyers with the dollars necessary to buy our goods and services. These dollars are obtained when Americans import and pay for foreign goods and services. I have just discussed the linkage between imports and exports. We understand this link. But I fear there are many who do not. I see a danger of drifting into a mindset that I call nomercantilism. Mercantilism was an economic doctrine of the 18th century stressing the fallacious concept that the road to economic health was to run large trade surpluses and receive the difference from trading partners in gold bullion. To accomplish this, governments adopted export subsidies and imposed onerous import restrictions.

Neomercantilism, as I see it developing, stresses export expansion to the exclusion of all other factors. Excessive emphasis is placed on bilateral trade balances. We must recognize that it is just as easy to waste taxpayer dollars and scarce resources in the inappropriate promotion of exports as it is to waste them in more traditional examples of Federal profligacy. This administration seeks less, not more, Government participation in the marketplace.

On the subject of trade deficits, I fully expect concern over our overall merchandise trade deficit to grow in the coming months. The strong dollar makes it likely that trade imbalances will continue. At the same time, we will continue to have large surpluses on our service accounts and to attract major inflows of private capital. That attraction will grow as our policies take hold. In other words, we should not be alarmed if the trade deficit increases as our economic policies revitalize the economy.

Let me turn briefly to the issue of foreign direct investment in the United States.

Foreign direct investment is relatively small, $65 billion in a $2.5 trillion economy. We have traditionally welcomed such capital because it benefits us. It increases jobs here. It reduces pressure on our interest rates. This is not to say that foreign investment should be absolutely unconstrained. One obvious and proper exception is foreign investment in activities integral to our own national defense. Another exemption may arise where the foreign firm is controlled by its government, and subsidies may give that firm an unfair advantage. We do have laws and rules which limit foreign investment in critical activities in the United States but we must guard against too rigid interpretations of these criteria. The burden of proof should be placed on those who advocate restricting trade and investment.

Let me assure you, Mr. Chairman, that this administration is not advocating a passive policy toward other nations' barriers to our trade and investment or their export subsidies. We strongly oppose trade-distorting interventions by other governments. We will insist, as we are in our current discussions with Canada, that our trading partners recognize that it is in their interest as well as ours to make trade and investment a two-way street.

Let me conclude with a few words about policymaking. One of the great difficulties in dealing with protectionist measures is that the beneficiaries are usually few in number but each has a large stake in the outcome. Thus, they have incentives for vigorous activity in their behalf.

On the other hand, the costs of protection may far exceed the benefits. But those costs, in the form of higher prices to consumers are widely diffused among 225 million citizens. Any one person's stake in the outcome is small. The consumer is not aware of why the price of a given item is going up. It is an educational challenge to make clear the true costs and benefits of protectionism.

Finally, our white paper calls for strong national determination and a commitment to rely on competition and free markets in trade policy. I can assure you, Mr. Chairman, that the Council of

Economic Advisers will continue to advocate this position and that the support we are receiving from the entire economics profession is bipartisan and enduring.

Thank you very much.

Chairman GIBBONS. That is good. I am glad to hear it. I appreciate your coming and telling us that. I subscribe to your views and vigorously support them. The problem is the Congress has to look at some things in a parochial way. I can understand Members of Congress who have serious economic problems right in their own districts, wanting to be seen in the forefront of trying to help alleviate those problems. I guess the political problem of using only the marketplace to alleviate those problems comes because market forces generally are slow in reacting and because of a lot of dislocation.

I recognize though that that is a part of the process, but we certainly have a lot of education to do up here and a lot of backbone building to do. I will look forward to working with you and the administration as long as the policy that you have announced is what is followed here.

Mr. WEIDENBAUM. I thank the Chairman for that very kind supportive statement and if there is any one message in my statement it is that open trade is fundamentally a consumer issue and truly consumers around the country are benefiting in a form of less inflation, more goods and services, and a higher living standard from open trade.

Chairman GIBBONS. One of the things that I think we must do is when there is an unfair practice going on by a country or by a private company in some other country, and I realize that we are dealing more with countries, I regret to say, we need to act vigorously in getting the thorn removed. I hope that in your position as Chairman of the Council of Economic Advisers you can make certain that those agencies within our Government must respond to these petitions of our own private industry or must sometimes start them on their own initiative more vigorously.

I think our international rules are good but the complaint we hear here in the Congress is that we are the patsies. We abide by the rules, but others don't and our Government does not vigorously move to protect us when other people are violating the rules.

We have tried to find better ways that there can be to make the countervailing duty laws and the dumping laws work but it really depends upon how fast our Government can move in these areas. Perhaps there are some Government initiated actions that would be helpful in proving to our trading partners that we do mean business on the enforcing of these.

Some businesses just can't afford, particularly businesses in trouble, can't afford to come into the Government and try to remedy a situation because you have a heck of a time meeting the payroll and keeping the plant operating and keeping the business going, and then coming up to Washington and hiring a law firm and economist and everything else to go out and enforce these rights.

So I would hope that our Government would move vigorously to try to redress these laws. I think if we did we would create a healthier environment, a healthier political environment for carrying out the kind of marketplace criteria that you want to live by and I want to live by.

Mr. WEIDENBAUM. Mr. Chairman, I strongly support that approach. In fact, in the discussions with foreign governments that I have participated in, I spoke up very frankly and said that the only way we can dilute the protectionist pressures in our country is if they reduce and eliminate their barriers to our products and services. But in my formal statement I do cite, unfortunately, a practice that happens too frequently in this country in my experience, and that is a company sending its lawyers down to Washington on Monday, urging us to deal with foreign barriers to our products and then on Wednesday the same lawyers come from the same company urging the Congress to erect new barriers to imports from other countries. And when we speak with such obvious forked tongues, it makes our credibility a little weak.

Chairman GIBBONS. I realize that. I appreciate your coming in. Thank you for a very constructive statement.

Mr. WEIDENBAUM. Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF HON. MURRAY WEIDENBAUM, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

Mr. Chairman and Members of the Committee, I appreciate this opportunity to participate in your comprehensive review of U.S. trade policy. The furthering of freer trade and investment internationally is inextricably linked with the economic health and vitality of our own nation.

My purpose today is to offer, from the broad, economywide perspective of the Council of Economic Advisers, some suggestions on certain key issues and advice on how we should be looking at the trade and investment flows in our balance of payments.

I want to stress three basic points:

growth in imports is no less important than export growth;

our trade or payments balance vis-a-vis one country is just a part of our total, long-run picture, which should be the focus of our concern and policy; and

the basic principle of, and benefits from, freedom of the marketplace applies as much to international investment as to flows of goods and services.

The case for freer trade is rooted in a basic economic law: the principle of comparative advantage. The arguments in favor of freer trade are supported by plenty of historical evidence. We had a fine example in the 1960's: the acceleration in world trade and economic growth in the 1960's following a sharp, mutual reduction in tariff barriers.

Let me turn to our own economic history for another example. This country began as a trading nation. In the 18th and early 19th centuries, the United States was one of the most trade-oriented economies in the world. We were major supplies of a wide variety of agricultural exports and raw materials (and of such delicacies as rum). In addition, our service exports, such as shipping, were an important economic activity. We were a major importer of manufactured goods and a major recipient of foreign capital. All this continued to play a critical role in the development of our economy during the 19th century.

Around the turn of the century the dynamics of the American economy shifted. Exports and imports became smaller shares of GNP and remained rather stable. U.S. investment abroad increased, gradually transforming us from an international debtor into a world creditor. Increasingly we became a self-sufficient economy.

Only in the last 20 years has the international sector once again begun to increase its relative importance in our economy. In 1960, exports of goods and services were 5.7 percent of our GNP; and by 1980 they had reached 13.1 percent. Imports rose comparably.

I anticipate that this trend, and the benefits which flow from it to all parties involved, will continue. But that will be so only if we can successfully resist the calls for protectionism by narrow-minded interests, both here and abroad. Increasing trade restrictions risks setting us on a path back to the destructive "beggar-thy-neighbor" policies of the 1930's. In short, much of the progress which has come about through the reduction in tariffs in recent years is threatened by the increased use of quantitative restrictions and other non-tariff barriers.

ADMINISTRATION'S TRADE POLICY

At this point, let me review the Administration's trade and investment policies. I will start with a summary of the Statement on Trade Policy or "White Paper" that was carefully developed last summer.

First, the "White Paper" places trade policy within its proper context—as part of the President's Economic Recovery Program. As our White Paper makes clear, free trade—based on mutually acceptable trading relationships—is both philosophically and pragmatically the international counterpart of our domestic economic program. Both in domestic and international markets, we are trying to reduce government-imposed barriers to the free exercise of individual initiative, risk-bearing, and entrepreneurship; that is, we strongly favor primary reliance of private enterprise as the engine of economic growth and progress.

How does trade contribute to the objectives of our economic program?

Open trade contributes to lowering inflationary pressures. Thus, freer trade is basically a consumer issue, and one of the most important of all.

Open trade minimizes the role of government in influencing private sector decisions, thereby allowing individuals and business firms to respond to the needs and pressures of the international marketplace. Thus, freer trade is key to promoting economic freedom and private enterprise.

Open trade improves the efficiency with which we produce goods and services, meaning more growth and an improved living standard for Americans. In so many ways, freer trade makes for a healthier economy.

For these and other reasons, we spelled out in the White Paper a commitment to pursue, at home and abroad, policies aimed at achieving open trade and reducing trade distortions. We also outlined five central components of our trade policy.

1. *Restoring strong non-inflationary growth at home.*—Fundamental to any effective trade policy is carrying out domestic programs that increase the incentives to invest, to raise productivity, and to reduce costs and so help lower inflation. These policies will strengthen the ability of American firms to respond to constant changes in domestic and international markets.

2. *Reducing self-imposed disincentives.*—We need to cut back confusing and unnecessarily complex laws and regulations that inhibit exports and imports.

3. *Effective and strict enforcement of U.S. trade laws and international agreements.*—In a genuinely open system, trade must indeed be a two-way street.

4. *A more effective approach to industrial adjustment problems.*—In a healthy, dynamic economy we must expect that some industries and regions will grow more rapidly than others and that some sectors will experience more difficulty. We must rely primarily on market forces, and not on government bail outs, to make appropriate adjustments.

5. *Reducing government barriers to the flow of trade and investment among nations.*—We must improve and extend international trade rules, particularly into the areas of services and investment.

That is our trade policy—the long version. A short version was given by the President in his recent address before the annual meetings of the World Bank and the IMF: as he stated, his government "is committed to policies of free trade, unrestricted investment, and open capital markets."

IMPORTS AND EXPORTS

Let me play the professor for a moment. There is a close, but not generally appreciated, connection between imports and exports. A strong trade position is based on both a high volume of imports and a high volume of exports. In fact, the only way in the long run to increase our exports is to increase our imports.

Let me explain this provocative point. Our exporters need to find foreign buyers with the dollars necessary to buy our goods and services. In general, these dollars are obtained when Americans import and pay for foreign goods and services.

In the short run, it is true that we can and do lend foreigners the dollars with which to buy our exports. When such loans are made at market rates of interest, trade of course is properly advanced. But, when government-subsidized credit is provided, such funds are denied to other, more productive uses.

Our imports thus put dollars in the hands of foreigners—which can then be used to buy our exports. It follows that restrictions on imports will result in fewer dollars in the hands of those in other countries who might wish to buy our wheat, aircraft, chemicals or machinery—unless we wish to make up the difference by loans or gifts to foreigners.

In some cases, the connection between imports and exports is even more direct. Import restraints can reduce employment and profits in our more productive export industries. The non-rubber footwear industry is one such example: U.S. exporters of hides to foreign shoe producers suffered as a result of our restraints on the import of foreign shoes.

THE DANGERS OF NEO-MERCANTILISM

I have just discussed the linkage between imports and exports. We understand this link. But I fear there are many who do not. Indeed, I see a danger of drifting into a mindset that I call "neo-mercantilism".

Let me play the professor again. Mercantilism was an economic doctrine that reached its heyday in the 18th century. It stressed the fallacious concept that the road to economic health was to run large positive trade balances and receive the difference from trading partners in gold bullion. To accomplish this objective governments adopted widespread export subsidies, established foreign trade monopolies, and imposed onerous import restrictions.

"Neo-mercantilism", as I see it developing, stresses export expansion to the near exclusion of all other factors in a healthy international trading climate. Under the neo-mercantilist approach, a large surplus on the merchandise trade account is thus considered to be an unmitigated "good" while a deficit is viewed as "bad". And excessive emphasis is placed on bilateral trade balances.

We must recognize that it is just as easy to waste taxpayer dollars and scarce economic resources in the inappropriate promotion of exports as it is to waste them in more traditional examples of federal profligacy. This Administration seeks less, not more, government participation in the marketplace.

BILATERAL BALANCES

Statistically, a bilateral balance on trade account or, for that matter, any other balance-of-payments account could be drawn between the U.S. and each of its trading partners. In a world of convertible currencies and of increasingly mutually interdependent trading relationships, however, such balances have little relevance. A deficit, even a relatively enduring one with a particularly country, may enable that country in turn to sustain a deficit with a third country with which we can then maintain a surplus. The U.S. trade deficits with Japan, and some of the OPEC countries are largely counterbalanced by U.S. trade surpluses with other nations.

One need only envision the complexity, to say nothing of the resultant distortion of trade, of a world in which trade between each pair of countries had to be balanced. In an open world economy, it is the aggregate position, not the components that comprise it, that matters.

There are exceptions—where currencies are not convertible and where trading relations are otherwise tenuous or constrained. But only in such limited situations does consideration of bilateral balances have relevance.

TRADE DEFICITS

I fully expect concern over our overall trade balance to grow in the coming months. Indeed, recent trade figures suggest that a decline in the balance has already begun. The relatively strong dollar of recent months and a stronger U.S. economy in 1982 make it likely that trade imbalances will continue. At the same time, we will continue to have very large surpluses on our service accounts and to attract major inflows of private capital. And that attraction is likely to grow as our policies take hold. In other words we should not be alarmed if the trade deficit increases as our economic policies begin to revitalize the American economy.

There was time—not long ago—when the hue and cry raised about trade deficits would have evoked pressures for a shift in policy. A trade deficit was viewed as a "burden" that showed failure of the system, and as a drag on the economy. That might have been true when exchange rates were fixed, and needed adjustments were not permitted.

But such intervention is not part of our policy, nor do we expect floating rates automatically to eliminate a trade deficit. The shift in the trade accounts from surplus to deficit simply reflects the adjustment process working as it should.

FOREIGN INVESTMENT IN THE UNITED STATES

Let me turn briefly to another aspect of increasing public attention: the issue of foreign direct investment in the United States. I suspect that the dynamic role of foreign capital in this country in the 19th century has long been forgotten. And today, particularly when contrasted with U.S. capital investment abroad, foreign direct investment in the United States is relatively small—$65 billion in a more than $2.6 trillion economy. We have traditionally welcomed such capital, because it benefits us substantially. Indeed, it allows U.S.-based firms to expand and modernize. It increases employment here, reduces burdens on our capital markets, and helps ease pressure on our interest rates.

Both portfolio and direct investment flows into the United States are likely to increase in the near future—as are the associated policy issues. This is so for two main reasons:

The President's Economic Recovery Program will, by design, improve the investment climate in this country. That improve climate will attract foreign as well as domestic investment.

Some of the major oil-producing countries are continuing to run substantial current-account surpluses. Their foreign investment outflows will therefore continue, and a revitalized U.S. economy is likely to attract a good deal of that investment capital.

To impose broad barriers to such inflows—as is suggested occasionally—is clearly inconsistent with the economic philosophy of this Administration.

This is not to say that foreign investment should be absolutely unconstrained. One obvious, and proper exception is foreign investments in domestic activities integral to our national defense. Another exception may arise where the foreign firm is controlled by its government, and subsidies may give that firm an unfair advantage. We have a number of laws and regulations which limit foreign investment in certain critical activities in the U.S. Moreover, the Committee on Foreign Investment in the U.S. (CFIUS) reviews foreign investments which might have implications for the national interest.

But we must guard against too rigid interpretations of even these criteria. We must avoid unwarranted limits on the free flow of capital which, like open trade, raises standards of living both at home and abroad. The burden of proof should be placed on those who advocate restricting trade and investment.

TRADE: A TWO-WAY STREET

Let me assure you that this Administration is not advocating a passive policy toward other nations' barriers to trade and investment or export subsidies. As laid down in our White Paper, our policy is one of strong opposition to trade distorting interventions by other governments. We will insist, as we are in our current discussions with Canada, that our trading partners recognize that it is in their interest as well as ours to make trade and investment a two-way street.

To this end we need to continue our efforts to improve the existing rules of the game for trade in goods—particularly under the General Agreement on Tariffs and Trade (GATT) and the codes developed in the Multilateral Trade Negotiations (MTN). We look forward to the GATT Ministerial in 1982 where such issues might well be considered. We might begin there, as well, the long process of developing new sets of international rules relating to the rapidly expanding trade in services as well as to investment flows.

Let me conclude with a few words about policymaking as it relates to trade issues. One of the great difficulties in public policy discussions involving protectionist measures is that the beneficiaries are usually few in number, but each has a large individual stake in the outcome. Thus the incentive for vigorous and concentrated political activity is strong.

On the other hand, the costs of protection may far exceed the benefits. But those costs, such as higher prices to consumers, are widely diffused among 50 states and 225 million citizens. Any one individual's stake in the outcome may be quite small. The individual consumer almost surely is not aware of why the price of a given item is going up. Consequently, resistance at the grass roots level to protectionist measures so often is considerably less than pressures for their adoption.

It is an educational challenge to make clear the true costs and benefits of protectionist measures. That educational endeavor may, in some cases, need to begin within the individual company. Sadly to say, I have been told of firms who send their lawyers to Washington on Monday to seek the removal of import barriers on one product. But on Wednesday, the same attorneys are sent back to Washington to advocate imposing import restraints on another product.

Our "White Paper" calls for a strong national determination and a commitment to rely on competition and free markets in trade policy. I can assure you that the President's Council of Economic Advisers will continue to advocate this position, and that the support that we are receiving from the entire economics profession is bipartisan and enduring.

Chairman GIBBONS. The committee will stand in recess until 2:30.

[Whereupon, at 1:10 p.m., the subcommittee was recessed, to reconvene at 2:30 p.m.]

AFTERNOON SESSION

Chairman GIBBONS. The meeting will resume.

Our next subject matter is the Trade Agenda for the 1980's: Multilateral and Bilateral Work Programs.

We have a panel consisting of the officers of the United States Trade Representative. Ambassador Brock is here to represent his office, accompanied by Michael Smith, Deputy U.S. Trade Representative, who is principally stationed in Geneva with the GATT, and by David Macdonald, Deputy U.S. Trade Representative stationed here in Washington. The Department of Treasury is represented by Mr. Marc E. Leland, Assistant Secretary for International Affairs; the Department of State is represented by Robert D. Hormats, Assistant Secretary for Economic and Business Affairs; the Department of Commerce by Mr. Raymond J. Waldmann, Assistant Secretary for International Economic Policy; and the Department of Agriculture by Mr. Thomas A. Hammer, Deputy Under Secretary for International Affairs.

PANEL CONSISTING OF: OFFICE OF THE U.S. TRADE REPRESENTATIVE: AMBASSADOR WILLIAM E. BROCK, U.S. TRADE REPRESENTATIVE, AMBASSADOR MICHAEL B. SMITH, DEPUTY U.S. TRADE REPRESENTATIVE, AND AMBASSADOR DAVID R. MACDONALD, DEPUTY U.S. TRADE REPRESENTATIVE; DEPARTMENT OF THE TREASURY: MARC E. LELAND, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS; DEPARTMENT OF STATE: ROBERT D. HORMATS, ASSISTANT SECRETARY FOR ECONOMIC AND BUSINESS AFFAIRS; DEPARTMENT OF COMMERCE: RAYMOND F. WALDMANN, ASSISTANT SECRETARY FOR INTERNATIONAL ECONOMIC POLICY; AND DEPARTMENT OF AGRICULTURE: THOMAS A. HAMMER, DEPUTY UNDER SECRETARY FOR INTERNATIONAL AFFAIRS

Chairman GIBBONS. Ambassador Brock, do you want to lead off, please, sir.

STATEMENT OF AMBASSADOR WILLIAM E. BROCK, U.S. TRADE REPRESENTATIVE

Mr. BROCK. Thank you, Mr. Chairman. I appreciate the chance to be back with you today. I think we had an excellent day yesterday, and I thoroughly enjoyed it, and appreciate the opportunity for the discussion. We have a very strong and balanced panel today, so if I may I will just make a brief summary of some of the major trade issues in the 1980's, and then we can go to whatever questions you have.

First, I would like to stress the importance that we attach to the GATT ministerial, which we expect to be called formally at the end of this month for a session in November of 1982, the primary purpose of which is to reveal the effectiveness of the various codes negotiated in the Tokyo round with the view toward identifying areas where adjustments may be warranted, and in addition, toward finding ways to begin resolving trade problems that we have not dealt with or inadequately dealt with in previous negotiations.

Second, I wish to mention the fact that, we have sought a 2-year extension of our tariff negotiating authority under section 124 of the Trade Act, which expires this coming January 1982.

I do believe that it is vital for the President to retain such authority so that he may be able to take advantage of negotiating opportunities as they develop, and to pursue them through market access of U.S. goods abroad.

Third, I would like to stress the enormous need to build an international framework for resolving trade problems in services, which will establish internationally agreed upon rules and procedures for services and provide for both bilateral and multilateral approaches to issues. We have been working to lay the necessary groundwork for the development of such a framework, and I intend to vigorously pursue this objective.

Fourth, obviously a continuing fundamental goal of U.S. policy is to remove obstacles to trade in agricultural products. As the world's most efficient producer of a whole host of farm products, we have a great stake in assuring a free and open trading system for these goods. We recognize that agricultural policy is often an extension of social policy, and that actions that many governments take in the farm sector are not necessarily the product of economic logic. This makes our task infinitely more difficult, but it does not reduce our resolve to eliminate distortions in agricultural trade.

It is a supportive attitude with respect to the GATT that we feel is very important. There are some who say that the GATT simply doesn't work for agriculture, who will cite export subsidies as an area in which farm products are treated differently.

We, of course, feel that agriculture is as much a part of the GATT as are industrial goods or services, and we will continue to press for agriculture's inclusion in all aspects of the GATT. We must convince all governments, including our own, that a more open and economically rational agricultural system is in their own self-interest. That is the challenge.

How do we get the issue addressed? How do we devise systems that protect the socioeconomic interests of governments, and at the same time open markets? This is the second part of the challenge. The GATT ministerial will be an appropriate and excellent forum for the first. Having agriculture discussed by the trade ministers would be only the first step. The GATT would have to agree to undertake a work program that would have as its ultimate goal the substantial reduction of distortions to trade in agricultural products.

Fifth, an investment policy is an important area of growing concern to us in the maintenance of an open trading system. As you know, we have discussed in prior sessions the trade problems we have in this area, which include export performance requirements, import substitution, local content, and any number of rapidly evolving trade-distorting nontariff barriers.

This administration intends to pursue a vigorous and positive investment policy emphasizing the liberalization of investment barriers to U.S. investment abroad, while maintaining an open investment climate domestically. An open investment environment is an essential component of an open trading system.

Lastly, there is a growing concern that U.S. high technology industries will face an unfair competitive disadvantage as a result of foreign government policies, and they may suffer substantial loss of international markets over the next few years unless the situation improves. U.S. high technology industries are competitive and contribute disproportionately to U.S. export performance, growth and productivity in the domestic economy. These industries provide support to our national defense and hold the key to America's competitiveness in the 1980's. We cannot afford to lose our lead in this area.

The current three-way competition between Japan, the United States, and the European Economic Community in semiconductors foreshadows increasingly fierce competition in the high technology area in the next decade.

Instead of taking a primarily reactive approach to sectoral problems, we will adopt a more forward-looking approach in the high technology industries of preventative perspective both domestically and internationally. Our objectives will be a mutual reduction of trade distortions to insure a freer and more open trading system.

Mr. Chairman, the United States must respond to trade issues promptly and forcefully within a cohesive overall national trade policy framework based upon a commitment to continue liberalization of global trade.

Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you, Mr. Ambassador.

[The prepared statement follows:]

STATEMENT OF AMBASSADOR WILLIAM E. BROCK, UNITED STATES TRADE REPRESENTATIVE

Mr. Chairman, I am pleased to appear before the Subcommittee this afternoon to discuss the Trade Agenda for the 1980's. I am joined by Ambassador Michael B. Smith, who heads the USTR Office in Geneva, Assistant Secretary of State Robert D. Hormats, Assistant Secretary of the Treasury Marc Leland, Deputy Under Secretary of Agriculture Thomas A. Hammer, and Assistant Secretary of Commerce Raymond J. Waldmann.

At yesterday's session, I discussed the issues of U.S. competitiveness, export credits, and the role of developing countries in international trade. These areas will continue to be important during the 1980's. In particular, the developing nations will play an important part in the world trading system and must be considered as we formulate our trade objectives. Today, I would like to discuss a series of additional issues that will demand our attention during this decade.

GATT MINISTERIAL MEETING

Before I begin to discuss specific issues, I would like to stress this Administration's strong support for the meeting of GATT at the ministerial level that is being planned for November 1982. This will present an excellent opportunity for the trading nations to reach consensus on the major trade issues of the 80's and to initiate solutions to the problems we face. It will be important for the Ministers to review the effectiveness of the various codes negotiated during the Tokyo Round of Multilateral Trade Negotiations (MTN), with a view to identifying areas where adjustments may be warranted. In addition, we must find ways to begin to resolving trade problems that we have not dealt with, or inadequately dealt with, in previous negotiation.

Planning for the Ministerial will continue at the meeting of the GATT Council on November 3 and the matter will be brought to the meeting of the Contracting Parties (CP's) in Geneva during the week of November 23. We anticipate that the

CP's will unanimously endorse the Ministerial, just as the GATT Consultative Group of Eighteen did at their meeting two weeks ago. We welcome the views of the Congress as we prepare for the Ministerial meeting in the coming months.

In conjunction with Ministerial planning, the MTN codes on Technical Barriers to Trade (Standards) and Government Procurement will be coming up for renegotiation in 1983 and 1984, respectively. During this time period, we will also be examining the possibility of negotiation of a new worldwide tariff nomenclature, the Harmonized System. By the time of the Ministerial, I would also hope that we could see the results of ongoing negotiations on commercial counterfeiting and safeguards.

TARIFFS

As you know, the Administration is seeking a two-year extension of the President's tariff negotiating authority (under Section 124 of the Trade Act of 1974) which expires on January 3, 1982. We believe that it is vital for the President to retain such authority so that he may be able to take advantage of negotiating opportunities as they develop and to pursue improved market access for U.S. goods abroad. We also believe that the current limitations and procedural requirements of the Section 124 authority are sufficient safeguards for those industries concerned about injurious import competition. The recently concluded U.S.-Japanese semiconductor negotiations, which will bring Japanese tariffs in conformity with U.S. tariffs, are an outstanding example of an improvement in foreign market access resulting from our use of Section 124. During the next 2 years the Administration also plans to conduct a general review of its longer term needs for such tariff authority.

As I mentioned earlier, another major trade issue during the 1980's, and one which could have far-reaching implications for U.S. and foreign tariffs, is the Harmonized System for the classification of goods in international trade. This new nomenclature system is scheduled to be considered for adoption by countries beginning in 1983 but would not be put into effect before 1985. During the next few years, the United States will need to thoroughly analyze the impact of the Harmonized System. The President recently asked the U.S. International Trade Commission to prepare a draft conversion of our Tariff Schedules into the format of the Harmonized System so that we can assess the effects of adoption on U.S. tariffs and on U.S. industries, workers, and trade.

SERVICES

The United States must continue its active leadership in seeking to liberalize trade in services. Services trade accounts for a substantial portion of U.S. exports and represents an area of rapid economic growth. Continued growth, however, will depend upon our service industries having greater access to foreign markets. Presently there exists a wide variety of trade barriers to services which limit world trade in services and the benefits which accrue from it. In the past there has not been a systematic means of addressing services trade issues, resolving services trade problems, or reducing services trade barriers. Unlike trade in goods, nations have not established a body of international agreements concerning fair trade in services.

There is a great need to build an international framework for resolving trade problems in services which would establish internationally agreed upon rules and procedures for services and provide for both bilateral and multilateral approaches to issues. We have been working to lay the necessary groundwork for the development of such a framework and I intend to vigorously pursue this objective. It is a process of familiarizing trading partners with our mutual interests in this area while building a consensus among interested nations as to the best means of approaching the problem.

Some have argued that there are too many problems to resolve in manufactures and agricultural trade to undertake a complicated and time-consuming exercise in services. I disagree. Countries are rapidly becoming more service-dominated, and there is simply too much at stake for us to delay the inevitable process of insuring that the world markets are open and the rules of trade are clarified in this area.

AGRICULTURE

One of our most important goals of the 1980's is to remove obstacles to trade in agricultural products. As the world's most efficient producer of a whole host of farm products, we have a great stake in assuring a free and open trading system for these goods. We recognize, however, that agricultural policy is often an extension of social policy and the actions that many governments take in the farm sector are not necessarily the product of economic logic. This makes our task infinitely more difficult, but it doesn't reduce our resolve that distortions in agricultural trade must be eliminated.

Our exports—and those of other countries—are facing the double threat of import barriers—both tariff and non-tariff—raised by a number of countries, as well as displacement and reduced export potentials stemming from the subsidized exports of other major trading nations. It is difficult to say which is the most detrimental to our trade, but the export subsidies offend my sense of fair play.

It is the attitude with respect to the GATT that we feel is very important. There are some who say that the GATT simply doesn't work for agriculture and who will cite export subsidies as an area in which farm products are treated differently. We, of course, feel that agriculture is as much a part of the GATT as are industrial goods or services, and we will continue to press for agriculture's inclusion in all aspects of the GATT. We recognize that for reasons of social policy, governments will continue to undertake special programs in the agricultural area; therefore, we need a way to convince all governments that a more open and economically rational agricultural system is in their own self interest. I repeat . . . in their own self interest. I'm emphasizing this because I frankly think that no amount of debate will convince a nation to change any policy, particularly one so emotionally charged as agriculture, unless it perceives some benefit for its citizens in doing so.

That is the challenge—how do we get the issue addressed, and how do we devise systems that protect the socio-economic interests of governments and at the same time open markets and reduce subsidized exports? I don't have the answer to the second part of the challenge, but I think the GATT Ministerial will be an appropriate and excellent forum for the first. Having agriculture discussed by the trade ministers would be only the first step. I think the GATT would have to agree to undertake a work program that would have as its ultimate goal the substantial reduction of distortions to trade in agricultural products.

There are a few specific areas where we will work to remove barriers in the early years of this decade. One such area of concentration will be agricultural trade with Japan. Two long-standing problems that we intend to resolve are Japanese limitations on the importation of citrus and beef. Both were the subject of some liberalization in the MTN and are scheduled for future discussions. We will press for the removal of these barriers.

Other market access issues will be given high priority as well, but we will also work to maintain the access that we have already negotiated and paid for. Our position has been made clear and I don't wish to engage in rhetoric on the matter of our market in the European Community for soybeans and non-grain feed ingredients. Suffice it to say that we value the concessions that we received in earlier trade negotiations. We do not wish to bear the EC's burden for structural adjustment. It is the EC's price support system that makes its domestic grain prices so high that the lower-priced imported alternatives are attractive.

This Administration has proposed substantial changes in our own domestic agricultural programs. The Congress has adopted an overall program that is different from that which existed twenty years ago. More remains to be done, but we're taking Uncle Sam out of farming and returning it to the people who know how to do it best—the farmers. This will cause some upheaval and there are likely to be some negative political consequences, but we and the Congress had to make some courageous moves in order to put our economic house in order. The changes that will come about as a result of these structural adjustments will be virtually universally positive. The result should be an agricultural machine driven by market forces. The American farmer, unfettered by restraints on his productive capabilities, will be in a position to take advantage of his productivity to produce increased quantities of goods for the domestic and international market. Our economic program should go a long way toward making this possible—but the other key element in making this work is to assure the producer that he will have access to markets for that production. I pledge myself to make every effort to assure that those markets will be there.

INVESTMENT

Investment policy is an important area of growing concern to us in the maintenance of an open world trading system. Government intervention in the investment area increasingly threatens to negate the trade liberalization which has been accomplished over the past thirty years. Foreign governments impose disincentives and barriers to investment and discriminate against foreign investors. These investment problems, which exist both with LDC's and some industrial countries, reflect and economic protectionism and nationalism that is deterimental to the future vitality of the world economy.

Many developed and developing countries impose performance requirements as a condition for approval of new investment or receipt of investment incentives. Examples include import substitution. Local content, and export performance requirements which distort or block trade as effectively as tariffs or non-tariff trade barriers. These trade-related performance requirements are a new form of non-tariff barriers which the GATT should address. We have begun preparatory work on performance requirements in the OECD, the GATT, and the IMF/IBRD and we hope to have countries address this issue seriously as part of any future work program. Our objective is to obtain a consensus on rules to restrict the imposition of performance requirements.

Addressing the need for additional foreign investment in developing countries is also a particularly high priority issue for the Administration. We believe that freer private capital flows can greatly improve the development prospects of third world countries. We are attempting to coordinate a program of increased investment in the Caribbean and other developing areas through strengthened OPIC activities, a suggested multilateral approach to international investment insurance, and bilateral investment treaties. An approach which strengthens the private sector, both domestic and foreign, in the LDCs will help stabilize their economies and governments and redound to the economic and political benefit of the United States.

This Administration intends to pursue a vigorous and positive investment policy, emphasizing the liberalization of investment barriers to U.S. investment abroad while maintaining our open investment climate domestically, and in particular focusing on the positive development aspects of freer flows of investment to developing countries. An open investment environment is an essential complement to an open trading system.

HIGH TECHNOLOGY GOODS

One of the major trade issues in the 1980s will be trade in high technology goods, including computers, telecommunications, nuclear energy, robotics, fiber optics, pharmaceuticals, and biotechnology.

Our key trade competitors recognize the importance of high technology industries to their plans for economic growth and national security. Unfortunately many have sought to foster development of such industries by interfering with the operation of normal market forces to ensure special treatment of high technology industries. Preferential tax policies, intervention in capital markets, as well as trade and investment policies have all been used to accommodate these efforts.

In the EC, for example, the tariff on semiconductors is 17 percent as opposed to the 4.2 percent as was recently negotiated by the United States and Japan. The EC rules of origin add an equivalent of an additional 3-5 percent duty for U.S.-made components. The EC telecommunication agencies are partially or wholly government owned or controlled and were excluded from coverage in the Government Procurement Code, resulting in very limited market access for U.S. exporters. These protective measures are coupled with export promotion programs, such as subsidized export financing.

In Japan there is a high degree of industry cooperation in research and development, which is helped by government priority setting, which directs capital to high-risk areas. Japanese government assistance to the computer industry has included development of industry consortiums, government-funded development of a high-performance computer, and tax benefits for computer users to encourage purchases. All these actions have very profound trade effects.

There is a growing concern that U.S. high technology industries will face an unfair competitive disadvantage as a result of these policies and they may suffer substantial loss of international markets over the next few years. The U.S. high technology industries are competitive and contribute disproportionately to U.S. export performance, growth, and productivity in the domestic economy. These industries provide support to our national defense and hold the key to America's competitiveness in the 1980s and 1990s. We cannot afford to lose our lead in this area.

As opposed to taking a primarily reactive approach to sectoral problems, the U.S. Government would like to adopt a more forward-looking approach in the high technology industries—a preventive perspective both domestically and internationally. Our objective will be a mutual reduction of trade distortions to ensure a more free and open trading system. The current three-way competition between Japan, the United States, and the EC in semiconductors foreshadows increasingly fierce competition in the high technology arena in the next decade.

The high technology industries will be a major concern of U.S. trade policy in the decade ahead. These are industries that we are competitive in, in terms of technology, price, and quality. U.S. industries are not intimidated by competition, as long as it is fair and they feel secure that they can maintain their lead in a free trade environment. The U.S. Government is committed to ensuring that a free trade environment exists and to taking an aggressive posture where needed to further that end.

CONCLUSION

I have addressed the priority trade issues that the United States will face in the decade of the 1980's. This is not an exhaustive inventory, as we must contend with a myriad of problems on an ongoing basis. Furthermore, we must continue to maintain open markets at home as we seek to expand market access for U.S. goods and services abroad. The United States must respond to trade issues promptly and vigorously within a cohesive overall national trade policy framework, based on a commitment to continued liberalization of global trade.

Chairman GIBBONS. Assistant Secretary Hormats, do you have a statement?

STATEMENT OF ROBERT D. HORMATS, ASSISTANT SECRETARY FOR ECONOMIC AND BUSINESS AFFAIRS, DEPARTMENT OF STATE

Mr. HORMATS. Yes; I will be very brief and summarize the basic points. First let me thank you very much for inviting me as Deputy USTR emeritus to participate in this hearing. I would just like to first discuss briefly the environment in which trade policy is going to have to be conducted over the next several years and then touch on what I believe to be a few of the major problems.

The next several years in my judgment pose an enormous challenge for U.S. trade policies, and major dangers to the international trading system. Pressures resulting from slow growth, high unemployment and inflation in many countries, increased international competition, and new trade and investment distortions are imposing major and growing strains on the international trading system. As a result, that system may be on the verge of its most serious crisis in the post-war period.

It is particularly important, I believe, that the United States develop, as Japan has already done, its own vision for the 1980's in order to define the longer-term objective of United States trade policy. That vision should be based on an effort to expand our own exports, and to support an international trading system which both opens new opportunities for world trade and seeks a reduction in the subsidies and other distortions which limit those opportunities.

The challenge before us is substantial. I think that our own economic well-being increasingly depends on our actively and forcefully promoting the trade interests of our citizens and strengthening the effectiveness of the international trading system in order to insure the health of the international economy.

Years ago the United States took the view that, as the strongest economy in the world, and as a country which had an international leadership role, we could—either for political reasons or because we did not think it would matter much to our economy—make trade concessions, or ignore trade actions by others, which did in fact adversely affect our economic interests. That day has long since passed.

Today we are in a more competitive world, and roughly 12 percent of our GNP and millions of U.S. jobs are accounted for by exports. Other countries, both in order to stimulate jobs and offset oil-related trade deficits, are utilizing governmental supports or incentives to encourage exports or discourage imports. And investment-related trade distortions are on the increase. In many cases free trade today is more of a myth than a reality.

In light of this changed environment, what should be the basis for our policies in the 1980's—the vision of the 1980's which we should seek to promote?

First, we need to work toward reducing and eventually eliminating the many nontariff barriers and export subsidies which distort international trade. This process was begun in the Multilateral Trade Negotiations. It must be continued in this decade as well. The types of distortion of greatest concern fall into the two most important areas of American competitiveness—high technology and agriculture.

Together these represent the strongest elements of U.S. trade performance, and will likely continue to be so in the decade ahead. But our performance in these areas will be strong only if we seek vigorously to prevent others from imposing impediments or providing subsidies which limit our export opportunities.

Many countries protect or support high technology industries for nationalistic reasons—believing that the capacity to produce the newest generation of computers, integrated circuits, or similar types of equipment, is necessary to their national economic health. In so doing, they both limit U.S. export potential, and they reduce the incentives of technological innovation in their own economies. This is particularly the case in Western Europe.

Japan takes the problem one step further, using and abusing an infant industry argument. It frequently builds up a domestic industry through Government support or protection to the point that the industry becomes a formidable international competitor, at which time the Japanese call for free trade in that particular sector. Assertive U.S. actions will be needed in order to achieve a greater degree of international consensus to limit the extent of Government intervention in these areas.

With respect to agriculture, the Multilateral Trade Negotiations made some, but not nearly enough, progress. Agriculture exports are vital to our domestic economy. We are the most efficient supplier in the world. Other countries, for domestic social or political reasons, protect their agricultural sectors or subsidize agricultural exports.

The inefficiencies which result penalize their domestic consumers and taxpayers, and seriously distort world trade. A hard look at this issue will be needed in the future. Our goal for the 1980's must be a more open, and less interventionist, system of international agricultural trade. In particular, we need a fresh and more effective international approach to the problem of agricultural subsidies.

Second, investment-related trade distortions pose an enormous threat to the world economy. We risk today, in the international investment arena, a deterioration in the climate similar to that experienced in the world trading arena in the 1930's. During that period, countries adopted nationalistic trade policies based on short-term economic perspectives.

Following World War II, the world made considerable progress in developing an international framework for trade matters. Although we still have some distance to go, the direction and emphasis of our effort is correct.

In the investment area, the same problem exists. However, no comparable framework has emerged, largely because there was after World War II an international consensus favoring a relatively free flow of investment capital. Now, in the aftermath of the economic downturns of the 1970's, there is a tendency on the part of developed and developing nations alike to move in the wrong direction—to increase intervention in the investment area to accomplish short-term economic objectives. This can only come at the expense of broader, long-term interests. A major goal of the 1980's must be to reverse this trend through international understandings and rules upholding an open and less interventionist investment climate.

Third, a key obejective for the 1980's will be to reduce barriers to trade in services and prevent new ones. As in the case of investment, there are few understandings or rules which regulate the degree to which governments can intervene to limit the access of foreign service industries to their markets. In particular I am concerned about barriers to the free flow of transmission of data across borders.

A standstill on new impediments to transborder data flows and a common effort to remove those which now exist will be beneficial to our economy and the world economy in the decade ahead. Impediments in this area, conversely, will be detrimental to business in many countries.

Fourth, the GATT system needs to be strengthened. The GATT code committees need to be made more effective. The GATT will need to evolve new structures for dealing with trade barriers tied in with domestic policies, including those related to trade in services and to investment policies.

In addition, a major effort needs to be made to increase the participation of the developing countries in the GATT, and in particular in the various codes—according them greater responsibility for the system and giving them commensurate benefits from the assumption of that responsibility.

Finally, let me discuss for a brief moment the U.S. economy. Over the next decade we will face a world which differs greatly from the world in which the trade policies and rules of the past were developed. Competition from Japan and the newly industrialized nations will be particularly intense. We will need a strong domestic economy to meet the competition.

Our own domestic competitiveness will require increased investment, research and development and productivity. New means of producing energy, new generations of computers and semiconductors, and innovative methods of transmitting data are just some of the areas in which American technology has played the leading role.

These developments, widely applied, can help to strengthen the competitiveness of traditional American industries such a steel and autos and provide major new lines of Amreican exports.

In order to take full advantage of our competitiveness and the opportunities we hope to create internationally for expanding trade, a major and highly creative export promotion effort will be required. Strong support for United States activities abroad, creative use of a host of U.S. export financing and promotion programs, and identification of growing markets in the developing world for special promotional efforts and attention will be particularly important.

[The prepared statement follows:]

STATEMENT OF ROBERT D. HORMATS, ASSISTANT SECRETARY OF STATE FOR ECONOMIC AND BUSINESS AFFAIRS

I appreciate your having invited me to participate in these oversight hearings on U.S. trade policy, and the opportunity to discuss the trade agenda for the 1980's.

The next several years pose enormous challenges for U.S. trade policy and significant dangers to the international trading system. Pressures resulting from slow growth, high unemployment and inflation in many countries, increased international competition, and new trade and investment distortions are imposing major and growing strains on the international trading system. As a result, that system may be on the verge of its most serious crisis in the post-war period.

It will be important for the United States to develop—as Japan has already done—its own vision for the 1980's in order to define the longer-term objective of U.S. trade policy. That vision should be based on an effort to expand our own exports, and to support an international trading system which both opens new opportunities for world trade and seeks a reduction in the subsidies and other distortions which limit those opportunities.

The challenge before us is enormous. Our economic well-being depends on our actively and forcefully promoting the trade interests of our citizens and strengthening the effectiveness of the international trading system in order to ensure the health of the international economy. Years ago the U.S. took the view that, as the strongest economy in the world, and as a country which had an international leadership role, we could—either for political reasons or because we did not think it would matter much to our economy—make trade concessions, or ignore trade actions by others, which did in fact adversely affect our economic interests. That day has long since passed. Today we are in a more competitive world, and roughly 8 percent or our GNP and millions of U.S. jobs are accounted for by exports. Other countries, both in order to stimulate jobs and offset oil related trade deficits, are utilizing governmental supports or incentives to encourage exports or discourage imports. And investment related trade distortions are on the increase. In many cases free trade today is more of a myth than a reality.

In light of this changed environment, what should be the basis for our policies in the 1980's—the vision of the 1980's which we should seek to promote?

First, we need to work toward reducing and eventually eliminating the many nontariff barriers and export subsidies which distort international trade. This process was begun in the Multilateral Trade Negotiations. It must be continued in this decade as well. The types of distortion of greatest concern fall into the two most important areas of American competitiveness—high technology and agriculture. Together these represent the strongest elements of U.S. trade performance, and will likely continue to do so in the decade ahead. But our performance in these areas will be strong only if we seek vigorously to prevent others from imposing impediments or providing subsidies which limit our export opportunities.

Many countries protect or support high technology industries for nationalistic reasons—believing that the capacity to produce the newest generation of computers, integrated circuits, or similar types of equipment, is necessary to their national economic health. In so doing, they both limit U.S. export potential, and they reduce the incentives for technological innovation in their own economies. This is particularly the case in Western Europe. Japan takes the problem one step further, using and abusing an infant industry argument. It frequently builds up a domestic industry through government support or protection to the point that the industry becomes a formidable international competitor, at which time the Japanese call for free trade in that particular sector. Assertive U.S. actions will be needed in order to achieve a greater degree of international consensus to limit the extent of government intervention in these areas.

With respect to agriculture, the Multilateral Trade Negotiations made some, but not nearly enough, progress. Agricultural exports are vital to our domestic economy. We are the most efficient supplier in the world. Other countries, for domestic social or political reasons, protect their agricultural sectors or subsidize agricultural exports. The inefficiencies which result penalize their domestic consumers and taxpayers, and seriously distort world trade. A hard look at this issue will be needed in the future. Our goal for the 1980's must be a more open, and less interventionist, system of international agricultural trade. In particular, we need a fresh and more effective international approach to the problem of agricultural subsidies.

Second, investment related trade distortions pose an enormous threat to the world economy. We risk today, in the international investment arena, a deterioration in the climate similar to that experienced in the world trading arena in the 1930's. During that period, countries adopted nationalistic trade policies based on short-term economic perspectives. Following World War II, the world made considerable progress in developing an international framework for trade matters. Although we still have some distance to go, the direction and emphasis of our effort is correct.

In the investment area, however, no comparable framework has emerged, largely because there was an international consensus favoring a relatively free flow of investment capital. Now, in the aftermath of the economic downturns of the 1970's, there is a tendency on the part of developed and developing nations alike to move in the wrong direction—to increase intervention in the investment area to accomplish short-term economic objectives. This can only come at the expense of broader, long-term interests. A major goal of the 1980's must be to reverse this trend through international understandings and rules upholding an open and less interventionist investment climate.

Third, a key objective for the 1980's will be to reduce barriers to trade in services and prevent new ones. As in the case of investment, there are few understandings or rules which regulate the degree to which governments can intervene to limit the access of foreign service industries to their markets. This will not be an easy process. The United States is very competitive in this sector, and many other countries do not share our desire to open up trade and services. On the contrary, many seek to protect their service industries from having to compete with ours.

Services will also be difficult to negotiate because of their complexity and variety, and because many in the United States are state, rather than nationally, regulated.

One area of particular importance—which is intimately related to our strength in high technology—is insuring the free flow of data across borders. A standstill on new impediments to transborder data flows and a common effort to remove those which now exist will be beneficial to our economy and the world economy in the decade ahead. Impediments in this area, conversely, will be detrimental to business in many countries.

Fourth, the GATT system needs to be strengthened. The GATT code committees need to be made more effective. The GATT will need to evolve new structures for dealing with trade barriers tied in with domestic policies, including those related to trade in services and to investment policies.

In addition, a major effort needs to be made to increase the participation of the developing countries in the GATT, and in particular in the various codes. The trading system, and the developing countries' own economic prospects, would be strengthened by their assuming greater responsibility for, and deriving commensurate benefits from, increased participation in the world trading system.

THE U.S. ECONOMY

Over the next decade we will face a world which differs greatly from the world in which the trade policies and rules of the past were developed. Competition from Japan and the newly industrialized nations will be particularly intense. We will need a strong domestic economy to meet the competition. Our own domestic competitiveness will require increased investment, research and development and productivity. New means of producing energy, new generations of computers and semiconductors, and innovative methods of transmitting data are just some of the areas in which American technology has played the leading role. These developments, widely applied, can help to strengthen the competitiveness of traditional American industries such as steel and autos and provide major new lines of American exports.

In order to take full advantage of our competitiveness and the opportunities we hope to create internationally for expanding trade, a major and highly creative export promotion effort will be required. Strong support for U.S. activities abroad, creative use of a host of U.S. export financing and promotion programs, and identification of growing markets in the developing world for special promotional efforts and attention will be particularly important.

Chairman GIBBONS. Thank you, Mr. Hormats.

Do other members of the panel have statements they wish to make?

Mr. WALDMANN. Mr. Chairman, I have no prepared statement. Obviously I agree with what Ambassador Brock and Ambassador Hormats have said. I think we should just get to your questions. Thank you.

Chairman GIBBONS. Ambassador Brock, as you know, this committee has expressed a lot of concern about subsidies. What we want to know is what will be the U.S. policy, and what is the policy now, on LDC subsidy commitments, in light of the recent Indian commitment? What is your view as to the progress achieved overall so far under the commitment policy in obtaining meaningful discipline over developing countries' subsidies?

Mr. BROCK. The basic U.S. policy, Mr. Chairman, is to take every possible step that we can to encourage the phasing out and ultimate termination of all subsidies in all countries. In terms of the evolving commitments policy of this and previous administrations, we have sought to use the strength of U.S. law and our strength in the GATT to require nations to make a commitment to engage in that phasing out, in order to participate in the subsidies code and the benefits which are derived therefrom under U.S. law through the injury test.

We are the only country in the world that has such a policy, and the difficulty we face is that as the sole defender of the faith, if you will, we have very little support in the formal international councils. We have tried to engage in this action by political will in negotiation, with varying degrees of success. I am not sure that we can state that the Indian agreement does achieve in a substantive fashion the goals we have established.

The choice, in all candor, was to avoid having the entire policy terminated by effective challenge in the GATT. We feel that we have made a good deal of progress in our negotiations with most countries, and we feel that we have the opportunity to continue to press for improvement in further negotiations with other countries as they seek accession under the subsidies code. However, it is a very difficult policy to sustain without adequate support in the international community on a unilateral basis.

Chairman GIBBONS. What is the Government's policy on export performance requirements by other countries, and upon that type of restraint upon trade?

Mr. BROCK. As I mentioned yesterday very briefly, we are not only deeply concerned but vigorously opposed to export performance requirements, as we are to local content requirements. Both are a clear distortion of trade. Both offer the prospect of damaging the trading system, and both are in contradiction to the agreements under the GATT.

We have some remedies available to us, but perhaps not enough. One of the difficulties is that even in the GATT, where there is a clear prohibition against these practices, there are other clauses of the GATT which provide for escape or for waiver of the practice, so it is very difficult to attack directly. The question comes to whether or not U.S law is adequate to guard against an abuse of our own domestic workers through the abuse of these practices.

Chairman GIBBONS. I think this committee would be most sympathetic to any legislative proposal that you made concerning the export performance or local content requirements that are imposed by other countries. I am afraid that is one of the new forms of protectionism that is beginning to make itself known in a rather sophisticated way, and I am anxious to put a stop to it. If our countervailing duty laws, antidumping laws and 301 procedures are not strong enough to get the attention of our trading partners and our potential trading partners, I would be delighted to strengthen our hand in dealing with that.

Mr. **Brock**. We do have some protection under existing law. We are involved in the process of trying to evaluate whether or not existing law is either adequate or sufficiently precise to deal with the need in a fashion that would stop the practice without doing violence to ourselves. One of the problems we have had in a number of these areas is that when we take an action in an effort to encourage others to be more responsible, sometimes it results in more injury to us than it does to our trading partner, and that is not wise.

That is the evaluation and discussion we are involved in at the moment. If we can find an improved way to approach the problem we would be delighted to do so, and we would welcome the Congress suggestions.

Another part of the answer is that when we find these practices are creating a problem for us, we must quickly and vigorously use the laws that are already on the books, to defend our own international interests. It is in our interest to discourage this practice, not simply to defend this country, but to stop the practice per se. That is the larger problem we are addressing.

Chairman **Gibbons**. When you say to discourage the practice, would it be your policy to depend upon American private business to file cases, or would the Government have an activist policy in initiating cases itself in this regard?

Mr. **Brock**. In all honesty, I believe that it is going to take both.

Chairman **Gibbons**. Mr. Frenzel.

Mr. **Frenzel**. Thank you, Mr. Chairman.

Gentlemen, thank you very much for your splendid testimony. I have a couple of questions. Particularly I would like to suggest, since you are all here, that a part of your job is serving up administration programs to the Congress in some kind of a reasonably prompt way.

As I understand it, there are two bills that are of major interest to me that the administration is supporting that are sort of kicking around without any real push being put behind them.

I refer to the FCPA amendments and the export trading company bill, and I would like to inquire as to which of the departments have put any effort in to try to promote the passage of those two bills.

The last time this committee traveled, it seems to me, like the Foreign Corrupt Practices Act amendments, was at least first on the list of our business people abroad as an immediate remedy for some difficulties they were having. I wonder if you could tell me how that is moving along, or if anybody has any new readings on it.

Mr. **Brock**. Let me start, and others may wish to add their own perspectives. The administration has appeared before the Senate Banking Committee on this issue. The bill, S. 708, Senator Chafee's reform legislation, has been reported out of the Senate Banking Committee after I asked for a meeting and had a very, very, successful meeting with members of the committee privately.

In that particular exercise, I was joined by the Secretary of Commerce among others, who has been very vigorous in his support. I believe the prospects for reforms are good now that we can predict passage through the Senate of the improvements to FCPA in the next month, barring some further major obstruction in the form of other more pressing legislation, or a legislative "hold" placed on the bill.

The difficulty we have, Congressman, is in the House, where we have been unsuccessful in getting hearings called on any piece of legislation at all. The only action to date has been one oversight hearing under Congressman Wirth's subcommittee, but there has been no active consideration of any proposed legislative changes. I would welcome any support that we could receive from the members of this body, because the administration position is very well established.

We want that law improved so that it is workable, enforceable, and comprehensible.

Mr. FRENZEL. Maybe we should hire Prince Fahd to be our lobbyist.

Mr. WALDMANN. If I may, I'd like to touch for a minute on the export trading companies legislation, which you also raised. When the Trade Policy Committee decided earlier this year to attack this legislative initiative, Secretary Baldrige became very much involved in the process along with Ambassador Brock. He has had a series of meetings on the Hill with people on both sides of the Congress.

As you know, it passed the Senate 93 to nothing. It is now before the House Judiciary Committee. There has been some discussion of the certification procedures under that bill. We expect the bill, following Judiciary, to go to the House Banking Committee, and I understand that the House Foreign Affairs Committee is also considering the bill at a subcommittee level.

Mr. FRENZEL. By that time the day of jubilation will have arrived. I mention it only because the administration has a reputation for being miracle workers in passing legislation, and one might say that we have seen precious few miracles in this area. If some more departmental work were to be expended, it would probably be well spent.

I might say further with respect to that kind of policy, somewhere drifting around the executive decisionmaking process is an item that deals with our problems of broadcasting to the north. The Ambassador has a proposal floating around, Treasury apparently has some other ideas, and I am not sure that this committee is thrilled about either one of them, but we think that sometime in this century you probably ought to put forward a proposal. Is it possible that this array of distinguished agency representatives might put its act in order and present some kind of proposal to us before we are all old and gray?

Mr. BROCK. Anything is possible, Congressman.

Mr. **Leland**. We agree, Mr. Congressman, that it is possible.

Mr. **Frenzel**. You make our job a little harder. We talk to our neighbors to the north with some frequency, and we are of a mixed mind here, and we would appreciate some leadership from the administration so there would be a response to what is obviously an outrageous law on the part of Canada. If we can't think of something that is responsible, then let's admit it and forget it, but otherwise it would be nice if you would bring something up here.

Mr. **Brock**. I expect we will have an early answer for you, Congressman. We have acted on this matter. We have considered the 301 findings. There was a finding of discrimination, and clearly we have a responsibility to act under the law as it is presently written. The Trade Policy Committee has met on the subject, and has reached a decision. We were requested to withhold presenting that decision to the Congress while another piece of legislation was being considered as one more precisely directed to the problem area.

We have done so with some reluctance, but are willing to accommodate. We are now at the point where a decision is not only imminent but is mandatory. That is my own personal judgment and that is the recommendation I will make to the President.

We have a meeting set within the next several days at the Cabinet level to present the arguments for the President's final decision. When he makes a decision we will be very quick to ask you to be involved in the legislative resolution of the problem.

Mr. **Frenzel**. Thank you.

Secretary Hormats, this morning Secretary Rashish appeared before us, and I found I took exception to some of his statements on Cancun, and he and I had a little discussion about what the United States did commit itself to in Cancun. He assured me that our four conditions were going to be defended vigorously to the death, and that global negotiations would not sacrifice the current institutions such as the GATT, IMF, and others, which are of particular interest to this panel. Yet we hear and see persistent reports that others who were there, and people in your department also, who really seem to want to capitalize the G and the N in global negotiations, and although the Secretary stoutly denied this, I would feel better if you denied it too.

Mr. **Hormats**. I would be delighted to help you feel better on this. One thing I learned in my tenure at USTR, and that is that the GATT is and should be the intended institution in which trade policy should be deliberated—in which international discussions on trade policy should take place. It should not be the U.N. The GATT has the expertise, and I can assure you that there is nothing that we would be inclined to do or willing to do which would compromise at all the integrity of the GATT.

Mr. **Frenzel**. I will be comfortable for another 1½ hours.

Mr. **Hormats**. I think you will also find, Congressman, that a lot of other members in the developed country group feel the same way. I think there is a lot of mythology about global negotiations. There are some who pay lip service to the notion, and then once involved in them would probably be willing to dig in their heels. But I can assure you, speaking on behalf of myself and others who are involved in this, there is no question in our mind but that the integrity of the GATT has to be preserved as well as the integrity of the IMF and the IBRD.

Mr. **Frenzel**. Does that mean that you will not suffer the GATT to become a subcommittee of the U.N.——

Mr. **Hormats**. Absolutely not.

Mr. **Frenzel**. Whose decisions can be overridden?

Mr. **Hormats**. You can sleep easily on that one.

Mr. **Brock**. I would like to reinforce that. We have had countless meetings within the administration in preparation for the discussions at Cancun. At no time did any agency suggest weakening of this resolve at all. Treasury's position was absolutely as strong as it could be. So was that of State, Commerce, and obviously USTR.

There is no disagreement in the administration in any quarter in terms of the basic purpose of the United States to maintain the integrity of the specialized agencies, and their ability to continue to function as legitimate instruments to expand and liberalize both trade and economic matters that affect our ability to be a part of this world in a positive fashion.

Mr. **Frenzel**. Thank you very much.

Mr. Chairman, I have a few more questions but I will yield.

Chairman **Gibbons**. Mr. Hance?

Mr. **Hance**. Thank you very much, Mr. Chairman.

I appreciate the panel being here and going over these matters with us.

Ambassador Brock, this morning I asked Secretary Block a question which falls primarily into your area. I asked him about his interest in the long-term agreement with the Soviets on the grain sales, and he said he was very enthusiastic.

I asked him if he was encouraged by this agreement and he said he was.

I believe that with the present farm bill that we have with this administration and that we have had with the last three administrations, our only hope in agriculture is expanding our exports.

If you could comment on that briefly, I would greatly appreciate it.

Mr. **Brock**. It would be difficult to pick a higher priority of this administration than the expansion of agricultural markets around the world.

We now export one-third of all that we produce.

It is essential not just to the well-being of our farmers, but our consumers, because that spreading of the agricultural cost across a wider market spectrum reduces cost and increases income for farmers and consumers alike.

We all benefit from trade, and there just is no debate on that point within this administration.

In terms of the specific question on the LTA, I did negotiate a 1-year extension of the grain agreement with the Russian delegation in Vienna in August.

We did that simply because we didn't have time to debate all of the difficulties of a completely new LTA in the short period before the expiration occurred on the 30th of September.

It is generally accepted that a new LTA, does serve a useful purpose in the fact that it provides some assurance to both sellers and buyers in terms of market continuity.

It is fair to say though that both the Russian buyers and the U.S. sellers have become far more sophisticated in the knowledge of the marketplace since the first agreement was established in the early 1970's, so there is not the imperative consequence to an LTA that would have occurred 8, 9, or 10 years ago.

We have a very skilled and sophisticated marketplace today, both of buyers and sellers, who are well established and knowledgeable, and it may be that we don't have quite the compulsion that we might have had in earlier years.

Those markets are going to be there with or without an LTA.

The LTA simply provides for more predictability and more assurance. As for my thoughts on the continuation of that process, I wouldn't use the word "enthusiastic."

I would be hopeful that we could arrange for continuing trading opportunities, but when and under what circumstances will depend on how circumstances unfold.

We do have a larger context for the consideration of an issue like this. It goes beyond the question of a particular product at a particular point in time. We must keep that context in mind.

Mr. **Hance**. One other question that I would direct to you.

In September I had the opportunity to visit China and meet with some of their people involved in foreign trade, and I also had the opportunity to visit with Deng Xiao-Ping for about an hour and a half.

On three different occasions he brought up the fact that they would like to sell more textiles to the United States.

Mr. **Brock**. Everyone would like to sell more textiles, Congressman.

Mr. **Hance**. Oh, yes, I understand that. His being very astute and well briefed, he knew the area I was from, and said he could buy more cotton from us if they sold us more textiles. Do you agree?

Mr. **Brock**. Yes, I agree.

Mr. **Hance**. You have got my support on that, coming from a large cotton-producing area.

The thing that he suggested was the possibility that some agreement be reached where they could sell more textiles in connection with their buying more cotton from the United States, tied to that.

You were there, I believe, right after I was there. Did they explore that with you?

Mr. **Brock**. No, I was not in China. I was in Asia, but I did not go to the People's Republic of China.

Mr. **Hance**. Have they explored that with you?

Mr. **Brock**. No, they have not.

Mr. **Hance**. I would hope that your people would look at that as closely as possible, and I realize the problems with textile imports.

Mr. **Brock**. We are always willing to consider all offers, Congressman, but the textile area is probably the most sensitive because we are in the middle of renegotiation of the multifiber arrangement, and it is an important part of the world-trading system.

MFA itself is a variation from the GATT and we must be careful about how we pursue it so that it provides an opportunity for continued growth of the U.S. industry and at the same time provides a market opportunity for smaller and new entrants to the marketplace. That is our negotiating goal, but in terms of specific relationships, frankly it will have to wait until after we have negotiated the MFA, because that is our authority to then engage in particular bilateral trading opportunities.

Mr. Hance. Thank you very much.

Thank you, Mr. Chairman.

Chairman Gibbons. First, Secretary Hormats, let me follow up on my friend, Mr. Frenzel's observation.

I certainly hope we will keep trade negotiations out of the U.N. I applaud his position and what I understand to be your position.

Second, do we need better international rules on agriculture? If so, where should we negotiate? When should we start negotiating on this?

Mr. Brock. We are all prepared to answer that one.

Chairman Gibbons. I just ask if anyone wants to volunteer.

Mr. Hammer. I will make a few comments as to the need for better agricultural rules, and then perhaps defer to our trade negotiators on how we might begin that process.

Chairman Gibbons. I am sure they would like to have your suggestions, so go ahead.

Mr. Hammer. First of all, let me say that as we look to the trade agenda for the eighties, this problem becomes greater in my opinion, not smaller, in terms of the fierce competition for the marketplace, even in our own domestic economy, as was mentioned by the Ambassador here.

We expect continued expanded domestic production through larger yields. We expect budget constraints which will cause still further reductions in our already pared down farm programs.

We would expect costs of production to continue to rise for petroleum and other inputs for agricultural products, and therefore with the basically stable domestic demand, interchangeable perhaps between various commodities, but basically stable. We are looking to the export market as our way of continued improvement in agriculture and also in terms of balance of payments and net benefit to the economy.

There is no question that we are going to be competing more vigorously for agricultural markets in the future. There is little question in my mind that there will be continued protectionism out there which we will face with our exports, but, in addition, in many countries we are seeing where they are systematically moving into the marketplace with subsidies, and all of these things generally come back home to roost in the GATT, and I think here we find that we do not have a particularly symmetrical approach to agriculture and industry within the GATT.

There is a long line of historical events that have led up to that, but I think at this point in time we have come to realize now more than ever we must take a look at the GATT and get them in conformity with the rules on all exports, and this includes subsidy as well as many other practices that we face.

There has been—I was not present at that meeting, but I know that Ambassador Smith and Ambassador Macdonald were just in Geneva where, for the first time, and in one of the smaller meetings in GATT, a group of 18 or so countries, they began and I think if I am not mistaken almost historically are beginning to analyze whether or not the agricultural rules in the GATT were sufficient for dealing with the problems.

All I can say is that we support enthusiastically work toward that with our trade negotiators, and, as I look to the future, as I pointed out, the need will become increasingly greater and greater to get these rules more appropriate to the kinds of trade, fair and effective competition that we are looking for in our products.

Mr. BROCK. If I might supplement that answer, from our own perspective in the trade office, Mr. Chairman, since Tom Hammer's comments are on the market perspective.

If we are going to be successful in dealing with agriculture, we must recognize that it is something more than just a domestic economic program.

Agriculture is almost an emotional subject with every nation. All would like to be self-sustaining, and the problem that we have comes from efforts to achieve self-sustaining production resulting in exportable products at a subsidized price which then displaces third country markets. This is where not only this country faces a problem but the developing nations face a problem because they can't compete with subsidized exports from highly developed industrial societies.

We do face then a hazard to the entire trading system unless we can come to grips with this problem.

I very much hope that this will be a significant item on the GATT ministerial agenda for 1982. It is almost impossible to consider a ministerial that doesn't consider the question of agriculture, but if we are going to go into it with any hope of success, we must admit that we too are not innocent.

None are without sin in this area. We have our own problems. We have just engaged in an export of subsidized product that puts us in a difficult position when insisting that all others adhere to absolute purity.

If we are going to deal with an issue of this difficulty, we must accept the fact that it is going to require some rethinking of our own approach.

Chairman GIBBONS. When do you think we ought to begin?

Mr. BROCK. Yesterday.

Chairman GIBBONS. When are we going to begin?

Mr. BROCK. Well, there is a farm bill before the Congress right now.

Mr. MACDONALD. Mr. Chairman, in a sense we have begun. The GATT secretariat at the request of the consultative group of 18 in the GATT prepared a 40-page memorandum outlining the differences between agriculture and industry as GATT law applies to those two areas.

A discussion ensued at this last meeting of the CG–18 designed to frame the issues for negotiation between those who would like to see those differentials eliminated, in which I think we count ourselves, and those who think that there are historical reasons for those differences, and that those differences should remain as they are.

That is about where we are now, probably not moving fast enough, but at least the preliminary work has been done. The impetus of the GATT ministerial in 1982 may promote work in this area.

Chairman GIBBONS. Do we have an international agency that concerns itself with investment practices?

Mr. BROCK. Practices?

Chairman GIBBONS. I am talking about something like the trouble they are having with the Canadians. Do we have any agency that involves itself actively in that?

Mr. LELAND. We don't have anything that is really equivalent to the GATT in this area as such. We have the basic OECD process where we discuss a lot of these issues, and we have GATT procedures which may apply for certain of the investment practices, for example, as they exist in Canada. If we don't have success in our bilateral dealings with Canada, we can go through various GATT procedures to try to resolve them.

As I said, it's not as ideal as you have in the trade area, but that's the area that you have it.

Chairman GIBBONS. I notice that Canada is always very active in going to the GATT complaining they have a case. Why are we so reluctant?

Mr. LELAND. We have noticed that, too, and we feel strongly that if that's the way we are going to get results, that's the way we are going to go. I think the only thing that gives us any reluctance to go is that we want to use any procedure we think will be most effective. As I said, in the GATT situation on trade issues, it's more clear as to what procedures might be used. When you get into investment, it's less clear what the result will be and there may be a possibility in that area that bilaterally we will have more chance.

I might add, because it's now been 20 minutes since Congressman Frenzel's question, I did not get a chance to say anything on Cancun. I don't think the global negotiations will have any effect on that particular issue, and the only thing that might keep him going to back up what Ambassador Brock said and what Mr. Hormats said on the issue, is that even the President's speech at the Bank Fund meeting and what he said in Philadelphia and what he did in Cancun should be sufficient reassurance that we intend to deal with the issues that the GATT deals with in the GATT and the monetary issues in the IMF.

He has repeated that in several areas. The four understandings that he put down in Cancun—he was the only one that did really say what these conditions were—were quite clear and to some degree the results of the meeting accepted that fact.

So I think it's well understood that the agencies that can best deal with this will deal with it.

Chairman GIBBONS. It appears to me that the Mexicans are looking for a special deal as far as this injury test is concerned. Under our countervailing duty and dumping laws and things of that sort, what's the policy toward Mexico about any kind of special deals?

Mr. BROCK. I mentioned yesterday, that the problem we have in our current relationship with that particular country is that they do not come under the GATT, or any dispute settlement mechanism which would provide for predictable and speedy response to resolve difficulties, which always occur between trading parties.

Instead, as a result we have had to establish the Joint Commission on Trade between the two countries which the Secretary of Commerce and I co-chair along with Secretary de la Vega from the Mexican side.

The effort is to resolve differences on a bilateral basis, both at the working and if necessary the administrative level. There is no proposal before that commission or internally within this Government for providing special benefits which would be in excess of those available to other trading partners.

On the contrary, there would be very severe difficulties in achieving the application of an injury test in the absence of any accession to GATT and any commitments on subsidies.

Mr. **Waldmann.** Mr. Chairman, speaking on behalf of the other half of that joint commission, I can just second what Ambassador Brock has said. There is no special exception or policy with respect to Mexico on countervailing duty cases. One recent case was grounded in a particular set of facts which probably would not be repeated.

Chairman **Gibbons.** That's pleasant to know.

Let me talk about our bilateral relationships with Japan, and this concerns our structure in dealing with Japan more than any criticism of the Japanese or of us.

It seems that everyone in governments past and present has wanted to do something about something we just generally define as the Japanese question. It seems to me there has been a proliferation of groups and subgroups set up to consult with Japan. If I am correct, there is a longstanding economic subcabinet group chaired by the Department of State. There is a 4-year-old Trade Facilitation Committee operated out of Commerce.

In recent months, an Executive Council of the Trade Facilitation Committee has been established at Commerce as well as the subgroup on trade chaired by the USTR, as part of the subcabinet group.

Further, there has been talk of a USTR run trilateral conference between the United States, Japan and the European Economic Community. It seems to me that there is just an excessive number of groups working on this problem. It occurs to me that there might be some confusion with the Japanese as to who they should deal with. I realize we don't make it any easier when Members of Congress go over there and they feel they have to deal with us, too.

Is there any consideration being given in the Government to either abolishing some of these groups or getting them all together and calling them under one name, or should we just let things go as they apparently are as I outlined them?

Mr. **Brock.** We do have a central mechanism Mr. Chairman, and that is the Trade Policy Committee. I am not troubled by these changes that have occurred under this administration. If you look at the problem in dealing with the Japanese Government for example, it is very difficult to deal with trade matters, because so many different agencies are involved. If we are dealing with farm products, obviously they come under the Department of Agriculture. And industrial and investment policies are under USTR.

Our difficulty is in insuring the opportunity for serious dialog with most of the agencies, and so we took the lead of the Economic

Consultation Group which is chaired by the Under Secretary of State to form the trade subcommittee, which can then reach into all of the Japanese ministries and deal with them in a broader approach.

The Executive Council that was set up in the Trade Facilitation Committee was an effort to upgrade the level of government-to-government contact in order to increase our opportunity to resolve some of these problems. But there is a clear definition to the responsibility of these groups that I think is understood at least by all of us and I hope by the Japanese as well.

The Trade Facilitation Committee was set up to deal with specific problems in specific countries as they arise. It was not as successful as we had hoped because neither side developed the level of resources that we intended to develop. Any coalescing process for all the Japanese ministries forced us to go to the Trade Subcommittee as a subgroup of the economic consultative process. I don't believe there is a disagreement among us in terms of what we are trying to do and how we are trying to achieve it.

Mr. LELAND. I would like to support that statement, because I really do think that having watched it over the last few months, that the different groups within our own Government really are operating together. The TPC is the basic forum where the issues are brought. Because of the nature of the Japanese Government in many cases to be effective on a lot of the investment-banking-insurance areas, we deal with them through the Minister of Finance, but in very close coordination with the TPC and with people who have primary responsibility.

I don't think the problem has been our own internal coordination. I think Ambassador Brock is totally correct. We are all constantly discussing it. What it is is trying to deal with a very difficult problem from as many directions as we possibly can.

Mr. WALDMANN. Mr. Chairman, if I might add a word, the TFC, the Trade Facilitation Committee was set up originally as Ambassador Brock said, to deal with specific cases and it did deal with some 22 cases which were submitted to the Japanese Government, and of those 19 were successfully resolved; that is, the United States exporter was able to get his products through this system and whatever barrier there was was removed.

But we felt that the pipeline had dried up a little bit and we wanted to revitalize that by raising the level we had with the Under Secretary of Commerce on our side, and the Vice Minister on the MITI side to cochair the new Executive Council.

I don't think any of us disagree about the relative specific functions of these organizations you mention and we all do work very closely together on them.

Chairman GIBBONS. Can we talk about the foreign commerce counselors. How many of them do we have in China?

Mr. WALDMANN. Mr. Chairman, I am sorry I don't know the answer to that. We probably have no more than three or four in even our largest areas and I would gather in China we would have that many Americans supported by local nationals in many cases.

Chairman GIBBONS. How many foreign commercial counselors do we have all together?

Mr. WALDMANN. I believe the number is less than 200. It's 162.

Chairman Gibbons. How many of those were just transfers out of the State Department?

Mr. Waldmann. Most of the original ones were in fact from the State Department, but the hiring has in the last year been opened up and we now have an increasing number of people from the private sector and from other Government agencies.

Chairman Gibbons. What's our goal for foreign commercial officers?

Mr. Waldmann. To make them effective salesmen for U.S. goods and services abroad.

Chairman Gibbons. How many people is that going to take?

Mr. Waldmann. Well, Mr. Chairman, I think at some point I had better ask your indulgence to submit some answers to these questions for the record. This is not an area of the Commerce Department that I oversee or am familiar with.

Chairman Gibbons. Fine. I am sorry to get off on that, but I am interested in that area. There may have been some in China. I think I met one. Maybe I just did not recognize all of them, I don't know how many I saw in Japan. There were not very many and it seems to me that we have got a lot of problems in that area.

I know it's a new agency. It's a new department and it takes time to gear it up.

Mr. Waldmann. Yes, sir. We will have the Assistant Secretary for Trade Development here for you tomorrow.

Chairman Gibbons. Yes, sir.

Mr. Brock. I would like to just comment on that. Every one of us on this panel and every member on your committee has been concerned over the years with the apparent lack of support our business community has received in the international trade area. I would like to state for the record that I believe we are trying and consciously achieving some changes in that regard. If one looks at the fact that the Congress did authorize this change, and it just occurred this spring. So it is going to take some time to work its way into a new management structure.

But the fundamental decision was made by the Congress, I think appropriately, and it's going to make a difference.

Second, the Secretary of State rescinded what was called cable earlier this year after a great number of complaints. Third, the Secretary of State has sent a cable to all U.S. ambassadors all over the world suggesting that it is a priority to support the American business person wherever they are in whatever fashion they can.

Changes have been made consciously in these last 10 months to address that question, and to do so as actively and as consciously and as quickly as we can. I think some results will begin to show before too long.

Mr. Hormats. May I say one thing, Mr. Chairman, to follow up the point that Ambassador Brock made.

I believe that there is a very strong sense of common feeling here that exports have to be one of the major priorities in terms of both international economic policy and domestic economic policy, since exports is such a large percentage of our GNP. One of the interesting things that we have been trying to do and Ambassador Brock and Secretary Baldrige and we at the State Department in particular have been doing is meeting with the ambassadors before they go out to the posts to try to convince them that this is a role they have to play. In virtually every other country, the ambassador is a salesman for the products of that country.

The French Ambassador also peddles air buses and the British Ambassador peddles Rolls-Royce engines, and I think we are going to have to have our ambassadors do more of this to offset the enormous political pressures that other countries apply on behalf of their exports.

I am very pleased to see that many of the ambassadors who have gone out to these posts have been very enthusiastic about these roles. It used to be considered a very dirty job, promoting exports, and it's now considered very vital to the American economy.

I think the attitude should be very helpful in promoting exports in the future.

Mr. FRENZEL. Mr. Chairman, if I might comment, if that attitude had prevailed in past years, there would not be any foreign commerce service because we probably would not need one. I have got to say that it is true in some embassies and it is hopelessly untrue in other embassies, and I hope the Department will not simply rely on one set of cables and make that a continuing priority with its ambassadors.

Mr. HORMATS. We are applying the full port press and it won't just be one cable but a lot of sustained efforts in this direction.

Mr. BROCK. I have been a critic of the Foreign Commercial Service for 10 years, Mr. Chairman, and I frankly have seen more positive action from this Secretary of State than I have by anyone else in all my years in politics. I would love to see this part of our evaluative process of our people overseas.

Mr. FRENZEL. I share your enthusiasm. Our guys have been normally shuffling papers while the Europeans and Japanese have been in the States making sales calls.

Even now I think our largest number of FCS are in the Tokyo Embassy spending a good deal of this time monitoring RFP's from N.T.& T. rather than out trying to move the merchandise. We have a long way to go even when you put good guys out there or good people out there. If you don't arm them for battle, they are not going to be able to do anything.

For instance, if they sit on the fourth floor of the Tokyo Embassy in their office, people are not going to come in to see them. It seems quite obvious to me that you have got to get your people out into the marketplace and get them the heck out of the embassies if they are going to do any work.

Mr. BROCK. We have some awfully good people in the Agriculture Department around the world.

Chairman GIBBONS. But we have a constant complaint from American businessmen that foreign business people are intimidated to go to the embassy. It has a political significance that they don't want to be associated with. They would not hesitate to go to some commercial office that's outside of the embassy. I realize there are security problems and everything else, but the people I think have to give some consideration to their expertise and their dedication and their constant word to us was to try to get those folks outside the embassy.

Not that there is anything wrong with the Embassy, but going to an embassy could have political significance in some countries, and business people just won't go there. That's one of the words of advice they gave to us.

Mr. **Hammer**. Mr. Chairman, if I might add at least from Agriculture's point of view, we have had people in the foreign countries for 20 years or so, and I think they developed a relationship where they have become an integral part of the embassy and have worked hand in glove with the Ambassador and other members of the staff over there, and have developed a reputation as shirtsleeve type salesmen, and they are out there pushing our wares, and I would just like to say that it is an effective tool and one which I think basically we have kept rather stable in terms of the size of our people overseas.

Primarily they are in the Foreign Agricultural Service and we have about a 2 to 1 ratio of people back here working with U.S. administration and about 250 of them or so overseas, and I would say half of those are perhaps foreign nationals, and I can not overemphasize the results that we feel we have achieved from having our counselors and attaches overseas.

Mr. **Waldmann**. Mr. Chairman, I think the total Foreign Commercial Service is around 600 people in the embassies. Most of those, of course, are foreign nationals. I don't know how they spend their time. Obviously the program is being developed as we are working with the embassies and with the ambassadors who are going out.

I would gather that more of their time is, in fact, spent putting together trade shows and arranging visits for American businessmen and that is, in fact, pushing the wares even if it's indirect salesmanship.

Mr. **Leland**. Mr. Chairman, I would like to add that part of it is the willingness to support the American businessman abroad in every facet, not just the trade but investors and the other things we might have. Part of the reason for reluctance to go to embassies is the attitude that they would not get much support. That was not what they saw themselves as being there for.

I do think in the last 10 months, because of all the conversations that have been had that there is clear indication that that is one of the functions they are there for, if people are having investment problems. We have been having a lot of bilateral discussions with our major trading partners who put up barriers and problems to investment. We also welcome hearing of the problems of the business community that they have, so that we don't deal just with the problems in the abstract but we can deal with them specifically.

So if we do it all the way across the board and they see the attitude is changing, we may get some results.

Chairman **Gibbons**. Do we need better trade rules on services, international rules?

Mr. **Hormats**. Yes, sir.

Chairman **Gibbons**. Does anybody have any suggestions as to whether we ought to start trying to negotiate better trade rules?

Mr. **Brock**. We started that process about 8 months ago—literally in the first days of the administration. Through Mr. Macdonald and Mr. Smith, I have been in touch with a high percentage of our trade partners. We have made achieving an international agreement in services, a fundamental and intrinsic part of our agenda for 1981 and 1982, particularly for the GATT ministerial. We had some success with the ministerial in July. The Japanese, for the first time, joined us in that particular exercise. We are trying to develop a political constituency around the world of supportive nations who have a vested interest in services trade.

We are trying to convince particularly the developing countries that they, almost above all others, have an enormous stake and a regime of clues that would provide for more orderly trade in the services area.

It is inconceivable to me that we can trade goods without a strong service sector. We can't do it without banking, insurance, engineering, consulting, shipping, and all the rest. Particularly, as Mr. Hormats mentioned, in the data flow and data transmission area where we have such a superior product, that it's in our national interest. But we must convince others that it is in their interest to develop a regime in the services area. It's going to take a long time. It's a very complicated subject, but it has to be done and it is a major priority of this administration.

Chairman GIBBONS. Good. I would say that for the 1980's we are going to have a good trade policy as I interpret the remarks of the various witnesses that appeared here today. This administration is dedicated to market-type economics, whether it be in agriculture or industrial goods and certainly in services. Two, we are going to try to strengthen all our opportunities around the world as well as our responsibilities by entering at the appropriate time some kind of international negotiation on what the rules ought to be for these various emerging areas.

And, three, as I hear from you, we are dedicated to preserving and strengthening the existing international institutions that we have and not trying to develop a whole rash of new ones or convert old ones, such as the UN or UNCTAD into new functions to negotiate on commerce issues. I applaud all of that. I hope that the interagency work in this administration will be smoother than it has been in the past, and in other administrations.

I am not particularly being critical of any specific thing in the past. There is always in every regime a scrambling for turf and I realize some of these things overlap and turf is not real clear, even when people are highly motivated and not particularly interested in grabbing any new turf. But I want it clearly understood that the Congress looks to the USTR as being the chief spokesman and our representative in Government for international trade matters, and I hope that in the future we won't have any trouble in letting everyone understand that.

I know each one of you at this table have your own particular areas, Commerce, State, Treasury, Agriculture, that you are interested in and rightfully so, but I think we have got some real problems ahead of us for the future.

What I think is now an overvalued dollar propped up mainly by our interest rates is going to cause problems sure as heck next year as far as trade deficits are concerned. As the headlines roll out the people are going to be running here saying you have got to get the

Japanese or the Europeans or the Canadians or the Mexicans off our back. They are hurting this and they are hurting that.

We are going to need a very united and strong voice of leadership, and I am very pleased at what I have heard here today. I look forward to working with you again in the future.

Mr. Frenzel, do you have any comments you would like to make?

Mr. FRENZEL. I have a couple of questions I want to ask probably of the Treasury or of the U.S. Trade Representative.

You talked about services as being a priority for the future. We are now beginning to get complaints from engineer companies particularly regarding taxation of services which are sold abroad but performed within the United States. Apparently our competitors are able to secure credits against that kind of foreign taxation for their services and we, of course, do not. Have you been receiving those complaints, and is there an answer to them?

Mr. LELAND. I will attempt to answer Congressman Frenzel. I think basically it is true that our system of taxation in many ways differs from a lot of others. The long arm of our tax law is somewhat longer than it is in many other countries. We just had a very major change which should really help exports. In the recent tax bill an exemption for income earned overseas up to $95,000 was included.

Mr. FRENZEL. We made it in spite of the Department's opposition.

Mr. LELAND. That was not the position by any stretch of the imagination of our Secretary of the Treasury. The Department is an ongoing institution. That is one reason why you get new faces at certain points in history. But basically I think that would have a good effect on a lot of other issues we are looking at in that area because we realize that with this whole issue we have to support our businesses overseas. It is just the same issue that the chairman said and it is under constant review, the issue of what is called tax-sparing, which is a very complicated one, and developing nations feel very strongly about it. I cannot say there is any complete conclusion. As I said, we just had a big change in the tax law as you know, but these problems are ones that are brought to our attention and we have paid attention to them.

Mr. FRENZEL. The point I guess that I am making is that it will not do any good for the USTR to develop the best kind of regimen in the world for a good exchange of services if American business people are going to be penalized and be noncompetitive because of the tax system, and we expect the agencies to work together to see that their work is complementary.

With respect to that, apparently there is going to be a meeting of the COCOM group in the near future. Does anybody know anything about it? Do we have any policy? Are we trying to do anything with that, and if we achieve whatever we are trying to do, what does it mean, and if we do not, what will happen to our currently loused-up policy of export licensing?

Mr. HORMATS. I cannot speak to the latter part, but I can speak to the former. The part of the question I can speak to is what we are going to try to do at this COCOM meeting in the fall.

As you recall at the Ottawa economic summit one of the key points the President raised was the need to develop a tighter set of export controls on high-technology exports to the Soviet Union and Eastern Europe.

What we have been doing over the last several months and indeed culminating in a trip which is now going on to consult with our partners in COCOM is to try to gain international support for a more restrictive approach for technology which is useful for militarily critical industries in Eastern Europe and the Soviet Union, and these products which are also critical to those types of industries, the objective being here to try to broaden and tighten the controls at the high-technology end of the spectrum, and we are now in the process of trying to get some support for this. It is more detailed than I can lay out to you, and I can lay out to you perhaps in a closed session the various categories that we consider to be militarily critical.

Mr. **Frenzel.** Are the trading partners looking like they might be cooperative?

Mr. **Hormats.** It is a bit too early to tell, because we have not gotten the responses of the individuals. They are still abroad. I will say I think it is not going to be so easy to get support for this. As you well know, many countries, particularly at a time when the Western countries are weak, particularly as in Western Europe, the East is a very important part of their overall exports. I think it is going to be difficult to get support for the tightening of the controls that we are asking for, but we do think it is important particularly to support goods at the high-technology end of the spectrum and particularly to prevent the transmission of the technology which the Soviets can use to produce these end-use items.

A good example is metallurgical technology. It is one thing to sell a propeller for a commercial airplane. It is another thing to sell the technology which the Soviets can use not only to produce that propeller not only for a commercial airplane but also for a military airplane. That is the sort of thing we are aiming at. The meeting for the fall will be the followup of this trip. Hopefully we will get some degree of consensus, although it is going to take a long time and it will be a very difficult process.

Mr. **Frenzel.** I am delighted that you at least have done something about it, and I do not want to belabor the subject because we will have the gentleman in charge of the licensing procedure over in Commerce in a little later on in our hearings, but I think it is fair to say that the system has lacked certainty and the system has been remarkable for its speed or lack thereof. I suppose that the No. 1 complaint of business people in China, for instance, is that they have been told it is a matter of U.S. policy that we are going to increase our exports into China. The whole damned Department cannot even find an application once it disappears inside the doors of Commerce. It may come out 20 months later or it may not.

Mr. **Hormats.** Well, I think having heard the same sorts of complaints I have to say that some of them, indeed many of those sorts of complaints are valid. The process has been too slow. There has been a considerable amount of uncertainty. In some cases what the private sector really wants is clarity. They want to know if they apply they have a reasonable chance, not a guarantee, but a reasonable chance. And they want to get responses so that they do not lose the contract by default because they simply have not been able to respond. I think there is definitely a need for improving this, and that is one of the things we are trying to do. We have a lot of work to do.

Mr. **Frenzel.** What happens is now everybody finds another agency to do their casework for them. Their order gets lost at Commerce and they go to STR or the National Security Council or into your office and you have to run and try to find the darn thing.

Mr. **Hormats.** Right. But there is a genuine effort being made now to streamline the system and shorten the turnaround time considerably.

Mr. **Frenzel.** I understand the streamlining process has resulted in tripling the length of the form so far, but we will talk about that a little later.

Mr. **Waldmann.** Mr. Frenzel, I note that Larry Brady will be up here to talk to you about that. I have heard Secretary Baldrige speak many times on the same subject. I know he places a good deal of emphasis on shortening these times, reducing the backlog. It is one of the key areas that he has identified within the Department for attention, even to the point of shifting resources from other activities in the Department. It is obviously an interagency clearance process. We do rely on State and Defense for advice in granting these licenses, but I can assure you that he gives that a great deal of thought.

Mr. **Frenzel.** Thank you very much.

The last question, Mr. Chairman, we have talked during these hearings before of the classification harmonization. The Cooperation Council I guess has about completed its work, and I wonder if somebody out there could give us an idea of what kind of prospective timetable there might be for the ratification and the adaptation of the TSUS at some point for the new harmonized code?

Mr. **Smith.** Congressman, what we are looking forward to now is the process starting in Geneva in late 1983, and probably taking 2 years. Obviously we will be working very closely with the Congress, and we will come back to the Congress for authority to enter into such a system. The problem will be extraordinarily complex because in our own system we will have roughly 7,000 TSUS line items to compress into 2,000 line items which will mean that the balance of concessions negotiated during the Tokyo round will have to be very carefully balanced.

We have already programed in for the fiscal year 1983 budget funds to do this. We are already looking into the computer system necessary in Geneva to link up with both Brussels and Washington, and have consulted with the ITC. As far as the Geneva operation is concerned, we already have estimated that it will take between 4 and 8 man-years per year from the U.S. side to complete the harmonization.

One problem we have is that we will be doing at least the work into the conversion at a time when the tariff cuts coming out of the Tokyo round will be going into effect. So this will be a delicate operation. Some people call it a mini-Tokyo round. I think that is overstated, but it is a very complicated mathematical problem.

Mr. **Frenzel.** So the earliest possible for the actual changing of the TSUS or the completion of the change with congressional approval would be 1985?

Mr. **Smith**. Yes, that is being even optimistic, sir.

Mr. **Frenzel**. Well, we in this administration are optimistic.

Mr. **Brock**. Could I just add one thought?

Mr. **Frenzel**. Yes.

Mr. **Brock**. I think in this particular frame it is important for you to understand that while we are rigorously trying to reduce our several agencies in budget terms, this is going to be an awesome task, and the statement that Mike Smith gave you is a very small part of what our requirements are going to be to accomplish it. The goal is worth pursuing, but I do want you to be aware of the fact that at some point we are going to have to pay for it. And in order for us to engage in this shrinking from 7,000 to 2,000 TSUS items, we must computerize and weigh the various items in terms of relative merit. If one considers the magnitude of 7,000 weights, each of which is subject to varying opinions, it is an enormous job and it either has to be done well or it should not be done at all. I want to be sure that you are aware of the fact that that problem is going to be before you in the next 2 or 3 years as we come to the Congress for authorization.

Mr. **Frenzel**. Once it gets adopted it is going to have to be done, is it not?

Mr. **Brock**. Yes, but I am worried about how we adopt it because the process by which we move is going to be particularly important to us. If we place the wrong weights on these combinations we can end up as severely disadvantaged or in fact losing some of the opportunities we achieved in the Tokyo round. It is not something we can put off for 5 years.

Mr. **Frenzel**. I agree with that, but eventually we cannot have U.S. manufacturers and users working with several different classifications.

Mr. **Brock**. That is absolutely correct.

Mr. **Frenzel**. Once the world goes that way we have to go that way.

Mr. **Brock**. It is in our interest. We must be very sure that we do it the right way going in, that is all.

Mr. **Frenzel**. Thank you, Mr. Chairman.

Chairman **Gibbons**. I thank each one of the members of this panel for your very fine testimony. Thank you very much.

[Whereupon, at 4:15 p.m., the subcommittee was adjourned, to reconvene at 9:30 a.m., Friday, October 30, 1981.]

U.S. TRADE POLICY

FRIDAY, OCTOBER 30, 1981

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, D.C.

The subcommittee met at 9:30 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

Chairman Gibbons. Good morning, ladies and gentlemen.

The meeting of the Trade Subcommittee of the Ways and Means Committee will come to order.

I welcome all of you. I realize it is Friday. Don't be in too big a hurry. I have plenty of time and an awful lot to learn.

Mr. Newkirk, we will start with you.

STATEMENT OF W. DOUGLAS NEWKIRK, ASSISTANT U.S. TRADE REPRESENTATIVE FOR GATT AFFAIRS, OFFICE OF U.S. TRADE REPRESENTATIVE

Mr. Newkirk. Thank you, Mr. Chairman. Since the House Ways and Means Subcommittee on Trade was among the principal drafters of the Trade Agreements Act of 1979, there is no need for detailed review of the content of the MTN agreements.

However, as we testified during the course of the Trade Agreements Act debate, the significance of the MTN agreements will become evident only as the agreements are put into force.

Today I want to focus on this process and describe where we stand with regard to the international implementation of the MTN.

To begin with, it might be useful to clarify the role of USTR in the MTN implementation process.

A major purpose of Reorganization Plan No. 3 of 1979 was to centralize the policymaking and negotiating functions for international trade in the Office of the U.S. Trade Representative.

The plan states that "USTR shall have primary responsibility, with the advice of the Trade Policy Committee for developing, and for coordinating the implementation of U.S. international trade policy."

The plan goes on to state that "USTR shall be the chief representative of the United States for all activities of, or under the auspices of, the General Agreement on Tariffs and Trade."

The plan also authorizes USTR to issue policy guidance to departments and agencies on a broad range of trade matters.

My presentation to you this morning will focus on the overall international aspects of MTN implementation: our efforts to encourage participation in the agreements and monitor their implementation and operation, the activities of the code committees, preparations for review of the codes, and the state of negotiations on leftover items of business from the MTN.

My colleague from the Department of Commerce will focus on the various programs undertaken to insure that U.S. businesses have the opportunity to take full advantage of the new export markets made possible by the MTN agreements.

In order to better explain where we stand internationally with regard to the implementation of the MTN agreements, I would like to review briefly what we are trying to achieve in the implementation of the MTN agreements.

Although we reduced industrial tariffs around the world by some 33 percent and made significant progress in liberalizing agricultural trade in the MTN, the real keystone of the MTN is the set of nontariff measure codes which revise and expand GATT rules.

In all, seven codes were negotiated: government procurement, customs valuation, technical barriers to trade—known as the standards code—import licensing procedures, civil aircraft, subsidies/countervailing measures, and antidumping.

These codes, along with the two agricultural arrangements on meat and dairy and the framework understandings, set forth a much-needed, modernized set of rules for the world trading system that will govern world trade for at least the next decade.

Implementation of the MTN agreements is a more challenging task than was implementation of previous multilateral agreements that focused largely on the reduction of tariffs.

The implementation of agreed tariff cuts on the basis of agreed schedules is largely an automatic process; the implementation of the nontariff codes requires new and innovative approaches.

Procedures have had to be established for carrying out national obligations under the codes, for managing the work of the code committees, for considering new issues arising under the codes and for settling disputes.

The code provisions, which often are formulated in terms of general principles, have to be interpreted and applied to specific cases. In practice this means making the agreements function as they were intended to function in our interpretation of the text.

In order to make the MTN agreements work, we have done several things.

First, we have encouraged broad-based international participation in the agreements. We have had considerable success in this regard.

All of our major industrialized trading partners and some of our major developing country trading partners have signed some or all of the agreements. We are striving for and expect additional developing country signatures over the coming months, for example, the Philippines' acceptance of the Government procurement code.

It is our objective to obtain the signatures of as many countries as possible so that the agreements will be applicable on a worldwide basis and that the structure of the trading system remains as unified as possible.

Second, we have taken care to insure that all laws, regulations and administrative actions necessary to implement the agreements domestically have been adopted by signatories.

We have examined these measures on a code by code, country by country basis, and made appropriate representations when we believed that international obligations were not met.

Third, we have been striving to insure the effective administration of the agreements at the international level by doing all that is necessary to facilitate the work of the various committees established to administer the agreements.

Each of the code committees is active and meets on a regular basis. We are currently in the midst of the annual, and in some cases biennial review of the agreements.

The code committees are engaged in reviewing the implementation and operation of the agreements by examining the national implementation material which has been submitted to the committees, reviewing the practical elements of implementation and discussing any trade problems that may have arisen.

The reviews of the codes have revealed that there have been only a few flagrant violations, derogations or discrepancies in signatories' obligations under the agreements.

It is the U.S. position that the smooth and efficient functioning of the GATT committee structure is essential if we and our trading partners are to have a solid institutional framework within which to pursue our rights and settle disputes.

Moreover, it is within these committees that the foundations will be laid for further negotiation on, and improvement of, the agreements in question.

In the case of the Government procurement and standards codes, these reviews will aid in the preparations for the 3-year review of these agreements that will begin next year.

Finally, we have made a concerted attempt to move forward with the unfinished business of the Tokyo round, completing negotiation of the safeguards and the counterfeit codes.

One of the major shortcomings of the MTN results is that it does not include a safeguards code encompassing the various actions taken by governments to protect domestic industry from damage due to import competition.

During the MTN, considerable work was undertaken but no agreement reached.

The issue remains a pressing need of the GATT for, without an understanding on commonly accepted safeguards practices, we will likely see the gradual accumulation of arrangements and practices that increasingly distort trade and undermine market-determined international competition.

Discussions on safeguards are continuing, but we have not been successful in finding a basic consensus among our major trading partners on how to proceed.

It is interesting to note, however, that a safeguards arrangement remains a priority objective of many of the developing countries.

In this regard our interests coincide.

Another item of unfinished business is completion of negotiations on a commercial counterfeit code. During the MTN, the United

States and EC reached agreement on a text of a code which seeks to stem international trade in goods bearing bogus trademarks.

The counterfeiting of trademarked commercial merchandise is an international problem and a growing menace to legitimate trade which affects trademark owners, manufacturers and consumers.

We are now in the process of negotiating with our other major trading partners to expand participation in the code.

Japan, Canada and Switzerland are the primary focus of our efforts at this time, and prospects appear good for their eventual acceptance.

To summarize my general remarks before I turn to each code in detail, the United States is actively engaged in implementing the MTN agreements.

Our experience to date has been good, but it has shown us that a continuous and vigorous effort is necessary to advance our objectives and insure that our trading partners respect their obligations.

That is to say, if we don't get out and push, no one will, and that is what we are doing.

If I could talk a minute about the Government procurement code, the agreement on Government procurement entered into force on January 1 of this year.

Given the nature of this agreement and its potential commercial importance, we have directed our resources towards close monitoring of its operation.

Even before the code entered into force, we began monitoring the progress of implementation among code signatories.

The day the code went into effect, we were talking about actual dollar contracts. This code had a particular significance for us.

My colleague from the Commerce Department will be talking about what we have done to insure that U.S. business has the opportunity to benefit from this code. I won't dwell on that element of it, but I would like to say that I think the Commerce Department has done an admirable job in setting up programs necessary to insure that if the U.S. company is interested in participating and taking advantage of this agreement, they have the opportunity to do so.

I will just talk a bit about what we have done internationally to try to insure that our trading partners are complying with the provisions of the code.

Our first effort has been, of course, through the committee that I mentioned, the committee of signatories.

In this context we have examined all the regulations and legislation the countries have put forward to implement the code.

We found with a couple of exceptions the countries have acted in good faith and have done what is required by the code.

Since the beginning of the year, this year, when the code went into effect, we have had over a thousand notices of proposed purchases that have been published by our fellow code signatories.

Of this total of a thousand, over 450 notices were from countries within the European Communities.

We have had over 350 notices from Japan. We have had about 75 notices from Canada, which has a smaller purchasing program than the EC or Japan.

These thousand notices represent first-time, new market opportunities for U.S. firms.

These notices have never been published before. They are being published now, and U.S. firms have the opportunity to compete for these contracts, but even though there have been a thousand notices, we really cannot make any determination on the effectiveness of the code until we have seen how many U.S. firms are able to win contracts in this new market.

While overall we are pleased with the operation of the code and we think it has been working pretty well, there have been a number of problems in the code implementation that we have been working on.

For example, the European Community member state implementation of the code has been a little bit deficient in terms of the amount of time allowed for bidding on a particular contract.

The code specifies it has to be a minimum of 30 days, between the time a bid is let and the time that the contract is concluded.

Originally, about 50 percent of the European member state notices didn't provide for the 30 days required.

We went to the Europeans and complained about this. We find now that the problem appears to be abating, and in our most recent survey of the contracts let, it indicates the original 50 percent failure rate has dropped down to about 20 percent, and the trend appears to be in our favor in this regard.

We also have been very dissatisfied with the lease implementation of the code.

We have found in fact Italy hasn't implemented the code, and this is very distressing to us.

We have approached them both bilaterally and multilaterally, and demanded that they follow their international commitments and implement the code. They have not done so yet, but we hope they will be doing so shortly.

I don't want to minimize the importance of these problems that we have encountered.

We consider any problem with the Government procurement code to be a major problem because it is denying actual sales to U.S. firms.

We have pursued any breach of the code that we found with considerable vigor, and we will continue to do so as the code continues into force.

It is too early to judge what the effect of the Government procurement code is because we don't have any hard figures on contracts let.

But at this stage we think the ball is largely in the court of the private sector.

We have provided the market opportunities and it is up to U.S. firms to exploit them. They are there, they are real.

They are of considerable commercial value. We have to find a way now of getting U.S. firms to pursue and actively participate in this new market.

That is what we are in the process of doing now.

Finally, we have placed a good deal of effort in this area focusing on Japan, because Japan is one of the countries where we have a very large potential market, and in the past we have not been able to exploit it.

In particular, we have a bilateral agreement with Japan on access to their national telephone company, the Nippon Telephone and Telegraph, NTT. This is an agreement that opened a $3.4 billion market to U.S. firms. It is a market previously completely closed.

As a result of our bilateral agreement, NTT was required to open their purchasing to U.S. competition.

I would like to report today that so far we have been very impressed with NTT's compliance with the agreement. They have done everything that they are required to do and in fact they have done more. They have translated all of their purchasing procedures, purchasing requirements, into English, distributed the texts at their own expense—they have held seminars on how to sell to NTT here in Washington and out on the west coast.

They have put on a week-long seminar in Tokyo where they described in detail how to make a proposal, how to sell to NTT.

U.S. firms were shown around their research facilities, and also taken step by step through their procurement process, so that any firm interested in dealing with NTT at least now has all the information that they need to participate in the procurement process.

NTT remains willing to entertain individual U.S. firms that approach them and explain step by step how to proceed in the procurement process.

So the NTT seems to be taking the extra step and doing what they obliged themselves to do, and in fact doing more.

To date we have only sold about $2 million worth of equipment to NTT but, because of their procurement cycle, and because of the adoption of the new procurement rules, they really have not let any major contracts yet—just been sort of housekeeping contracts.

The test of the agreement and the test of NTT's good faith will rest in letting contracts for major highly sophisticated elements of the telephone system. They have not issued any invitations to tender on things like central switching equipment since the entry into force of the agreement.

So we are watching very closely for that first major contract invitation to see how U.S. firms are treated.

Once we see that, we will have some really firm impression of how well the agreement is working. So we are watching NTT very closely and on a daily basis.

Another of the agreements in force is the Customs valuation code. That entered into force in 27 countries already, including the United States, and, of course, all of her major trading partners. Our experience so far has been quite good.

During the negotiations the United States pressed very hard to have all customs valuations made on the basis of the price actually paid or payable, the invoice value.

We have discovered in the United States about 94 percent of the transactions coming in are being valued on that basis, and, more importantly, in Europe, where we used to suffer uplifts in customs valuations at the whimsy of Customs officials, we find there about

95 percent of the individual Customs transactions coming in are being valued on the basis of the price paid or payable.

So 95 percent of the transactions are being dealt with in the manner that we sought in the negotiations.

That is a very encouraging figure considering the large amount of trade between multinational companies that takes place between the United States and European Communities.

We are quite pleased with the implementation of the valuation code.

In regard to the standards code, we have found internationally it has been rather well received. We have 32 countries that have accepted the standards code or applied it on a provisional basis.

We are particularly heartened by the fact that a number of the major developing countries are applying the standards code.

Among them are Brazil, Chile, Korea, Pakistan, the Philippines, Singapore, Tunisia, and Hong Kong—all applying the standards code.

We found initially that several countries which signed the code were a bit tardy on their implementation. Unlike a code like the procurement agreement, the standards code doesn't deal with direct commercial concerns, but rather with more indirect commercial concerns.

So countries didn't seem to be as active in their implementation of the standards code as they were with the procurement code, but in every case where we found a country that had signed the code and not done what they promised to do, we went to them bilaterally, talked to them, and tried to reach some accommodation on a schedule for implementation.

As a result, we find today that the countries that have signed the code have implemented it faithfully.

There has been sort of a trend that we have been able to monitor to demonstrate the degree of acceptance of the code and the degree of implementation of the code.

That is, one of the code requirements is that when a country is getting ready to implement a new standard, they have to notify it to the GATT, which then notifies it to anybody who is interested.

In 1980, the first year of the operation of the code, we only received 120 notifications. So far this year we have received over 250.

To us, these figures indicate that the code is coming into effect, and that the trend is up in terms of accurate and faithful implementation of its provisions.

When we get these notifications, we disseminate them to American industry and to interested parties that would like to comment on these proposed standards, and the Department of Commerce has a very active program in this regard.

Another of the agreements that we are in the process of implementing is the import licensing code.

We have 32 signatories to this agreement. It is an agreement which we consider to be particularly important in developing countries because many of the developing countries use licensing as their primary means of monitoring and adjusting import levels.

We are encouraging developing countries in particular to sign this code. We have had some success, and we hope to have more.

The agreement on trade in civil aircraft establishes a multilateral framework for the free and fair international trading in civil aircraft.

It was the only industrial sectoral agreement in the Tokyo round.

It had as its fundamental objective the creation of international rules which would assure competition between manufacturers worldwide on the basis of the product and not other considerations.

It is a more limited agreement, only 16 countries have signed it, but they are the countries that produce and export aircraft, so that is where our interest lies.

The code covers both the tariff and nontariff barriers to trade in civil aircraft.

The agreement calls for the elimination of all customs duties and similar charges for not only aircraft, but other equipment associated with aircraft, such as engines and flight simulators.

There are no duties on those items any more. The code also deals with Government intervention in decisions to purchase civil aircraft.

We have worked very closely with the other countries that have signed this code to insure that it is effectively implemented.

In particular, we have had a very active committee in Geneva working on civil aircraft to insure that the agreement is properly implemented.

In the subsidy, countervailing and antidumping agreements, we have had quite an active time since the agreements came into force.

Basically, what we have been doing internationally is focusing on how the various code procedures should be interpreted.

We have tried to take our interpretation of the code and have it accepted internationally.

In the last year Chile, India, Australia, and New Zealand have acceded to the subsidies code, and Pakistan, Poland, and Spain have joined the antidumping code.

We have recently had indications from a number of other developing countries concerning possible code acceptance.

We continue to encourage our trading partners to join the codes and undertake the international discipline that is provided in the codes.

We are also requiring that developing countries that wish to sign the subsidy code submit commitments to reduce or eliminate export subsidies, in addition to the provisions that are required in the code itself.

We have also begun to use the subsidy code disputes settlement mechanism to seek redress against unfair and trade distorting subsidy practices.

This fall we have taken the first step with the European communities on their common agricultural policy as regards export subsidies on sugar and wheat flour.

We expect in addition to sugar and wheat flour there will be more cases to come under the code.

The work this year has been largely refining the procedures and refining the definitions in the subsidies and dumping codes. We have had a group of experts, for example, looking at the way that individual countries calculate the amount of a subsidy, so that we can have a better understanding internationally on how to do that.

In the dumping code, we have been working on an agreement that would forestall the adoption of a basic price system abroad which we feel would be very detrimental to U.S. export interests.

We have had quite a busy year in monitoring the import policy practices of other countries. We have taken quite an interest in the way that the European Community is administering their antidumping law.

We have intervened with them in several instances when we thought they were in violation of their obligation. We have also taken a very close look at Canada because Canada is in the process now of considering a new import policy to control what they consider to be damaging imports.

We have been working with them to try to come up with an import policy that we feel is consistent with their international obligations and won't be detrimental to U.S. exports.

This briefly summarizes where we stand on the international side of MTN implementation.

[The prepared statement follows:]

STATEMENT OF W. DOUGLAS NEWKIRK, ASSISTANT U.S. TRADE REPRESENTATIVE FOR GATT AFFAIRS, OFFICE OF U.S. TRADE REPRESENTATIVE

INTRODUCTION

Since the House Ways and Means Subcommittee on Trade was among the principal drafters of the Trade Agreements Act of 1979, there is no need for detailed review of the content of the MTN agreements. However, as we testified during the course of the Trade Agreements Act debate, the significance of the MTN agreements will become evident only as the agreements are put into force. Today I want to focus on this process and describe where we stand with regard to the international implementation of the MTN.

To begin with, it might be useful to clarify the role of USTR in the MTN implementation process. A major purpose of Reorganization Plan No. 3 of 1979 was to centralize the policy-making and negotiating functions for international trade in the Office of the U.S. Trade Representative. The plan states that "USTR shall have primary responsibility, with the advice of the Trade Policy Committee for developing, and for coordinating the implementation of, U.S. international trade policy." The plan goes on to state that "USTR shall be the chief representative of the United States for all activities of, or under the auspices of, the General Agreement on Tariffs and Trade." The plan also authorizes USTR to issue policy guidance to departments and agencies on a broad range of trade matters. My presentation to you this morning will focus on the overall international aspects of MTN implementation: Our efforts to encourage participation in the agreements and monitor their implementation and operation, the activities of the code committees, preparations for review of the codes, and the state of negotiations on left-over items of business from the MTN. My colleague from the department of Commerce will focus on the various programs undertaken to ensure that U.S. businesses have the opportunity to take full advantage of the new export markets made possible by the MTN agreements.

In order to better explain where we stand internationally with regard to the implementation of the MTN agreements, I would like to review briefly what we are trying to achieve in the implementation of the MTN agreements.

Although we reduced industrial tariffs around the world by some 33 percent and made significant progress in liberalizing agricultural trade in the MTN, the real keystone of the MTN is the set of non-tariff measure codes which revise and expand GATT rules. In all, seven codes were negotiated: government procurement, customs valuation, technical barriers to trade (known as the standards code), import licensing procedures, civil aircraft, subsidies/countervailing measures, and antidumping. These codes, along with the two agricultural arrangements on meat and dairy and the framework understandings, set forth a much-needed, modernized set of rules for the world trading system that will govern world trade for at least the next decade.

Implementation of the MTN agreements is a more challenging task than was implementation of previous multilateral agreements that focused largely on the reduction of tariffs. The implementation of agreed tariff cuts on the basis of agreed schedules is largely an automatic process; the implementation of the non-tariff codes requires new and innovative approaches. Procedures have had to be established for carrying out national obligations under the codes, for managing the work of the code committees, for considering new issues arising under the codes and for settling disputes. The code provisions, which often are formulated in terms of general principles, have to be interpreted and applied to specific cases. In practice, this means making the agreements function as they were intended to function in our interpretation of the text.

In order to "make the MTN agreements work", we have done several things. First, we have encouraged broad-based international participation in the agreements. We have had considerable success in this regard. All of our major industrialized trading partners and some of our major developing country trading partners have signed some or all of the agreements. We are striving for and expect additional developing country signatures over the coming months, for example, the Philippines' acceptance of the government procurement code. It is our objective to obtain the signatures of as many countries as possible so that the agreements will be applicable on a world-wide basis and that the structure of the trading system remains as unified as possible.

Second, we have taken care to ensure that all laws, regulations, and administrative actions necessary to implement the agreements domestically have been adopted by signatories. We have examined these measures on a code-by-code, country-by-country basis, and made appropriate representations when we believed that international obligations were not met.

Third, we have been striving to ensure the effective administration of the agreements at the international level by doing all that is necessary to facilitate the work of the various committees established to administer the agreements.

Each of the code committees is active and meets on a regular basis. We are currently in the midst of the annual, and in some cases biennial review of the agreements. The code committees are engaged in reviewing the implementation and operation of the agreements by:

(a) Examining the national implementation material which has been submitted to the committees;

(b) Reviewing the practical elements of implementation; and

(c) Discussing any trade problems that may have arisen.

The reviews of the codes have revealed that there have been only a few flagrant violations, derogations or discrepancies in signatories' obligations under the agreements.

It is the U.S. position that the smooth and efficient functioning of the GATT committee structure is essential if we and our trading partners are to have a solid institutional framework within which to pursue our rights and settle disputes. Moreover, it is within these committees that the foundations will be laid for further negotiation on and improvement of the agreements in question. In the case of the government procurement and standards codes, these reviews will aid in the preparations for the three year review of these agreements that will begin next year.

Finally, we have made a concerted attempt to move forward with the unfinished business of the Tokyo Round: completing negotiation of the safeguards and the counterfeit codes. One of the major shortcomings of the MTN results is that it does not include a safeguards code encompassing the various actions taken by governments to protect domestic industry from damage due to import competition. During the MTN, considerable work was undertaken but no agreement reached. The issue remains a pressing need of the GATT, for without an understanding on commonly accepted safeguards practices, we will likely see the gradual accumulation of arrangements and practices that increasingly distort trade and undermine market-determined international competition. Discussions on safeguards are continuing, but we have not been successful in finding a basic consensus among our major trading partners on how to proceed. It is interesting to note, however, that a safeguards arrangement remains a priority objective of many of the developing countries. In this regard our interests coincide.

Another item of unfinished business is completion of negotiations on a commercial counterfeit code. During the MTN, the U.S. and EC reached agreement on a text of a code which seeks to stem international trade in goods bearing bogus trademarks. The counterfeiting of trademarked commercial merchandise is an international problem and a growing menace to legitimate trade which affects trademark owners, manufacturers and consumers. We are now in the process of negotiating with our other major trading partners to expand participation in the code.

Japan, Canada and Switzerland are the primary focus of our efforts at this time, and prospects appear good for their eventual acceptance.

To summarize my general remarks before I turn to each code in detail, the U.S. is actively engaged in implementing the MTN agreements. Our experience to date has been good, but it has shown us that a continuous and vigorous effort is necessary to advance our objectives and ensure that our trading partners respect their obligations.

THE AGREEMENT ON GOVERNMENT PROCUREMENT

The Agreement on Government Procurement entered into force on January 1 of this year. Given the nature of this agreement and its potential commercial importance, we have directed our resources towards close monitoring of its operation.

Even before the code entered into force, we began monitoring the progress of implementation among code signatories. Concurrently with these monitoring efforts, we established mechanisms to assist U.S. firms in taking advantage of code opportunities. My colleague from the Commerce Department will be providing the Subcommittee with a thorough briefing on this mechanism, so I won't linger on this point. In short, however, I believe we have developed effective procedures to place information on opportunities for foreign government business in the hands of interested U.S. firms and to assist these firms in their efforts to sell their products.

Since January 1, we have continued and intensified our efforts to monitor the code. Through the Committee on Government Procurement, which consists of representatives from all code signatories, we have participated in a thorough examination of each signatories' laws and practices. We also have been monitoring notices of procurement opportunities and other foreign procurement documentation to ensure that full code requirements are being met.

To date, we are reasonably satisfied with the operation of the code. Since the beginning of the year, over 1000 notices of proposed purchases have been published by our fellow code signatories. Of this total, over 450 notices were from the EC, over 350 notices were from Japan, and over 75 notices were from Canada. These notices represent to a great degree, totally new export opportunities and, consequently, we must await final awards before judging the success or failure of the agreement.

We have found that most of our fellow code signatories have adopted all necessary changes in their procurement laws and practices. Likewise, we have been reasonably satisfied with the procurement documentation we have analyzed.

While overall we are pleased with the operation of the code, there have been a number of problems in code implementation. We have not been pleased with a number of aspects of the EC and member state implementation of the code and are using code procedures to deal with these problems. For example, we found that almost 50 percent of the EC's notices of bidding opportunities did not provide the required 30 days for firms to respond. As a result of our intervention, I am pleased to be able to report that this problem appears to be abating rapidly, with the latest data showing that the 50 percent failure rate has dropped to under 20 percent. We also have some difficulty with the EC's method of calculating whether a contract falls below the code's threshold for coverage. Finally, we have been dissatisifed with Italy's overall implementation of the code and are pursuing redress through both bilateral and code procedures.

I will not try to minimize the importance of particular problems we have encountered. We believe that any infraction of the code is a serious matter and have been approaching each infraction as such. However, on the whole these problems are limited and, we expect, temporary.

It is still too early to gauge the effect of the code on our trading interests. To a large degree, the ball is now in the court of the private sector. We have won them the opportunities and offer assistance in taking advantage of these opportunities—but it is up to them to decide whether or not to go after these new markets.

As you know, we have placed a good deal of effort into negotiating and implementing our agreement with Japan regarding Nippon Telephone and Telegraph (NTT). The agreement has opened NTT's $3.3 billion market to U.S. producers for the first time. Thus far, we have been impressed with NTT's efforts toward implementation of the agreement. They have done all that is required of them under the agreement and then some. They have revised their procurement practices, published technical specifications in English and held a number of useful sales seminars for U.S. businessmen on how to sell to NTT. Going beyond the agreement's requirements, NTT has prepared extensive English translations of documents at considerable expense. To date, we have sold only a little over $2 million in equipment to NTT and these sales were for relatively low technology products. However, due to NTT's budget cycle, they have not yet purchased large amounts or any high technology equipment to date, but the bidding process has now begun and a number of U.S. firms are participating. We will be monitoring these purchases closely, as they are key to the success of the agreement.

AGREEMENT ON CUSTOMS VALUATION PROCEDURES

While the Agreement on Customs Valuation did not enter into force until January 1, 1981, the United States and EC have been applying it since July 1, 1980. Twenty-seven countries have accepted the code to date. Our experience with the implementation of the agreement has been quite good. Domestically, we have found a dramatic decrease in the number of disputed valuation decisions. Internationally, exporters are no longer subject to arbitary uplifts in dutiable value in signatory countries. Overall, the implementation of the agreement has gone as smoothly as we could have hoped.

AGREEMENT ON TECHNICAL BARRIERS TO TRADE

The Agreement on Technical Barriers to Trade, otherwise known as the standards code, has been iplemented internationally with relatively few problems. To date, 32 countries have accepted the agreement or apply it provisionally. We are pleased, in particular, by the fact that a number of newly industrialized developing countries have accepted this code—among them are Brazil, Chile, Korea, Pakistan, the Philippines, Singapore, Tunisia and Hong Kong.

Initially, several countries experienced delays in their internal implementation work, especially with regard to the establishment of national inquiry points and mechansims to make the notifications required by the code. As a result, the United States urged these countries to accelerate their domestic implementation activities and these problems were resolved.

A key element in the monitoring of the standards code has been the review of information provided by the signatories. The code requires notifications of any changes in standards. 120 notifications were received in 1980, thus far in 1981, we have received over 250. These figures are a good indication of the extent to which the agreement has "taken hold" and is being applied internationally. We are making the information contained in the notifications available to the private sector through Executive Branch departments, most notably the National Bureau of Standards of the Department of Commerce.

The Committee on Technical Barriers to Trade concluded its second annual review of the implementation and operation of the agreement last week. At that meeting the Committee discussed specific standards-related issues, including the accession of non-GATT member countries to the code, the applicability of the code's dispute settement provisions to process and production methods, and activities of regional standardizing and certifying bodies.

AGREEMENT ON IMPORT LICENSING PROCEDURES

There are 32 signatories to the licensing code and, like the standards code, signatories include a number of developing countries. As the Subcommittee is aware, the purpose of the licensing code is to harmonize, simplify and bring greater international transparency to the procedures that importers must follow in obtaining an import license so that the licenses themselves do not constitute a non-tariff barrier to trade.

In an effort to enhance the transparency of the code, the code committee adopted procedures that require all signatories to notify all aspects of their licensing systems. This material will form the basis of the biennial review of the implementation and operation of the agreement, scheduled for the second week of November. Thus far in our analysis of the implementation, there appear to be no major difficulties.

AGREEMENT ON TRADE IN CIVIL AIRCRAFT

The Agreement on Trade in Civil Aircraft establishes a multilateral framework for a more free and fair interantional trading environment for civil aircraft products. The only industrial sectoral agreement in the Tokyo Round, its fundamental objective is the creation of international rules which assure that competition between manufacturers worldwide would be on the basis of product excellence, price and delivery without trade-distorting influence of government intervention. Sixteen countries have accepted the agreement.

The code covers tariff and non-tariff barriers to trade in civil aircraft. Customs duties and similar charges levied on, or in connection with, the importation of civil aircraft, engines and flight simulators are eliminated. Duty-free treatment is accorded to parts, components or subassemblies for use in civil aircraft. Duties on foreign repairs of aircraft are also eliminated. The code also deals with government intervention in decisions to purchase civil aircraft.

The United States has followed carefully each signatories' implementation of this agreement and has been an active participant in the Committee on Trade in Civil Aircraft. To facilitate the Committee's review of trade under the agreement, the signatories agreed to provide statistical reporting of trade data on relevant products.

SUBSIDIES/COUNTERVAILING MEASURES AND ANTIDUMPING AGREEMENTS

Our activities in the subsidies and antidumping codes this past year have focused on interpreting the code procedures and using these rules to further U.S. trading interests.

This year, Chile, India, Australia and New Zealand acceded to the subsidies code and Pakistan, Poland and Spain joined the antidumping code. We recently have had indications from several other developing countries concerning possible code acceptance. We continue to encourage our trading partners to join the codes and undertake disciplines on their subsidy and antidumping practices. It is the policy of the United States to require developing countries to submit commitments to reduce or eliminate export subsidies in addition to signing the subidies code, before they can be considered a "country under the agreement" under our law.

We have begun to use the subsidies code dispute settlement mechanism to seek redress against unfair and trade-distorting subsidy practices abroad. This fall, we requested consultations—the first step in the process—in our case against the EC Common Agricultural Policy export subsidies on sugar and wheat flour. There may well be more cases to come.

Part of the work of the two codes is refining the procedures on subsidies and dumping. For example, the Group of Experts in the subsidies code is working on rules for the calculation of a subsidy. In the antidumping code, an understanding is now under consideration that would forestall the adoption of basic price systems abroad that would hurt some of our most competitive exports.

Monitoring import policy abroad is becoming an increasingly important part of our work, as economic pressures abroad bring more countervailing and antidumping cases. For example, USTR will continue to take an active role in assisting our exporting industries hit by EC antidumping cases. Where there have been problems with EC enforcement in particular cases, we have raised them with the EC both bilaterally and under the antidumping code committee. With regard to Canada, we have matained a dialogue—bilaterally and under the code—on Canada's proposed import legislation.

I hope this briefly summarizes where we stand in the international implementation of the MTN. Deputy Assistant Secretary of Commerce Ann Hughes will now describe the activities of her department in the MTN implementation process.

Chairman GIBBONS. Thank you, Mr. Newkirk. I think you are engaged in the most far-reaching of all the things that we need to do in international trade.

I applaud what you have outlined there. It is something this committee, of course, is going to follow very vigorously. I feel very strongly unless we can set a strong pace, the rest of the world will not be interested in living up to these standards.

I think it is very important that we do it.

Chairman GIBBONS. How many of the other members of the panel have statements they want to make before we begin questioning?

Mr. Waldmann, would you like to make yours?

STATEMENT OF RAYMOND J. WALDMANN, ASSISTANT SECRETARY FOR INTERNATIONAL ECONOMIC POLICY, DEPARTMENT OF COMMERCE

Mr. WALDMANN. Thank you, Mr. Chairman.

I appreciate the opportunity to meet with your committee again to discuss today the question of implementation of our trade agreements.

Under the reorganization plan which Mr. Newkirk mentioned, the Department of Commerce was given the responsibility for certain activities relating to trade agreements and the operational implementation of those agreements, and we have prepared a detailed statement of our activities which I would like to submit for the record, and with your permission I would just like to highlight a few of the points.

Chairman GIBBONS. We will put your entire statement into the record.

Mr. WALDMANN. Thank you.

The three general areas concerning MTN implementation that I would like to touch on are accomplishments to date, the problems we see, and the goals that we have set for ourselves.

A significant accomplishment has been the realization by other signatories of these MTN agreements that we, that is, the U.S. Government, intends to monitor very closely the letter and the spirit of their implementation and administration of these agreements.

As Mr. Newkirk said, these agreements are not self-executing in the same sense as other trade agreements, and therefore they do require this kind of continuous surveillance and monitoring.

We have established channels to provide an effective monitoring program which include communication to our U.S. commercial posts overseas, international meetings and exchanges such as the committee meetings Mr. Newkirk referred to, bilateral consultations conducted by agencies at this table and others, and complaints and information which we receive from the private sector to let us know about the problems they have in taking advantage of these opportunities.

We believe that our monitoring efforts are paying off. They have provided us with the capability of enforcing our rights under these agreements, and we have used both the formal dispute settlement procedures and mechanisms, and in some cases we have gone further and had resolution of problems on a bilateral and multilateral basis.

Our experience has shown that the informal approaches often prove more successful, and in fact it is through the bilateral discussions that many of our trade problems encountered to date have been resolved.

Mr. Newkirk touched on many of those.

For example, one case, discrimination in Japan against U.S. manufacturers of metal baseball bats, was handled by a demarche to the Japanese under the standards code, and the Japanese applied pressure to the recalcitrant private certifying body, and they are now taking steps to revise and open up their system.

Another accomplishment was the negotiation of the NTT agreement, which gives new access to the Japanese telecommunications market for U.S. firms.

The Japanese sponsored two seminars in the United States this year to orient U.S. firms to their market. The Department of Commerce organized a trade mission to Tokyo, which was led by Under Secretary Olmer this year in which over 45 U.S. firms participated with the objective of familiarizing our firms with the NTT procedures and opportunities.

The United States-Japan joint statement on standards, testing, and certification activities is another example of a useful vehicle for discussion of these bilateral product specific problems.

We have also established mechanisms to insure that the information which we receive from foreign governments is available to our private sector so that they can fully utilize their rights under these agreements.

The programs that we have established here are described in more detail in my statement, but I would like to just highlight a few of these activities.

Under the standards code, we have established a Standards Information Center which handles all requests for United States and foreign technical regulations and standards.

It is generally recognized that this Standards Information Center is the most efficient and well organized center established by any signatory under the code.

We are using personalized publications, articles, speeches, and other communications means to get the word out to the private sector.

The Commerce Business Daily is publishing proposed foreign technical regulations, and more importantly, it is publishing abstracts of foreign government procurement opportunities. Several private trade publications are also picking up these notices beyond the official Government publications.

We make U.S. business aware of foreign procurement tenders in time for them to bid. We are disseminating the notices through the trade opportunities program, a specialized program of the Department of Commerce which targets particular firms with these interests.

And since January of this year we have published close to 1,000 notices of proposed Government purchases.

Although it is too early to document fully the results, we are seeing what I think to be a significant trend, that is more U.S. firms are becoming qualified bidders under the procurement codes. In fact, to give you an example, 22 American firms have become qualified suppliers to NTT, and 6 U.S. firms have won NTT contracts.

Over 400 American firms have already succeeded in becoming prequalified suppliers to other Japanese ministries, and have so far won 22 contracts.

We believe that our industry advisory program established during the MTN and continued under the 1979 Trade Agreements Act provides another valuable resource for MTN implementation.

The committees which were established under that program have about 500 members, and they are an effective forum for seeking advice both on our initiatives and identifying for us problems and needs as they see them in the U.S. business community.

Some of the problems we have identified so far I would just like to touch on.

As a result of our monitoring efforts we are aware of the slowness with which some of the signatory governments are implementing these agreements. And we have also seen haphazard implementation efforts by others of the obligations that they have assumed.

We are serious about enforcing these code obligations, and as Mr. Newkirk mentioned we have been pressing particular governments to fully implement the procurement codes.

U.S. business must receive information on a timely and usable basis from overseas if they are to take advantage of these opportunities. Yet, we find ourselves facing translation problems, too short a turnaround time, insufficient personnel devoted to this, both by the Government and by the private sector, and probably many other problems which we can discuss.

We want to do a better job of reaching the U.S. business community. We want to let them know of the potential benefits that they can obtain if they make use of these codes. And we are particularly concerned about the small- and medium-sized firms which in many ways, if properly informed, offer the greatest new export potential.

Part of the problem seems to be generally that it is companies already familiar with the MTN and with government procurement which have so far expressed an interest in our various programs. We need to broaden that base of interest.

Lastly, we are concerned that American firms are not independently moving more aggressively to take advantage of these opportunities. We are ready and able to assist them. But a large part of the burden rests with the American business community to go out and try to make the sales.

In conclusion, let me just say that we are committed to making the MTN agreements work for American industry, and our goals are ambitious. We want to insure that, first, all countries are notifying their procurement opportunities.

Second, that all proposed mandatory regulations are notified and U.S. comments are taken into account.

Third, that our companies bids are given nondiscriminatory consideration.

Fourth, that U.S. exporters no longer face discriminatory customs valuation and licensing procedures.

Fifth, that U.S. products can compete effectively in the world market without an unfair advantage of government subsidization or unfair pricing of foreign products.

And, finally, that our aircraft sector is able to compete fairly with its foreign competitors.

I think in the future we will be less reluctant to invoke the dispute settlement procedures, particularly as the agreements have been in effect for a growing length of time, and the excuses of startup problems will no longer hold water.

We want to continue to improve our information systems, and we have to get more readily usable information to the private sector more quickly.

For example, we are undertaking seminars, both here and abroad, for U.S. companies on the Government procurement code as a first step in this area, and we are considering other outreach programs on the MTN codes.

Finally, of course, we must recognize this is still the beginning of the program. As our experience with the MTN agreements matures, we will continue to develop new methods and avenues to widen U.S. participation in the trade opportunities which these agreements offer to the U.S. business community.

Thank you.
[The prepared statement follows:]

STATEMENT OF RAYMOND J. WALDMANN, ASSISTANT SECRETARY FOR INTERNATIONAL ECONOMY POLICY

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to appear before you today to discuss implementation of the MTN agreements.

Implementing the Toyko Round of MTN agreements is a major responsibility of the Department of Commerce. In carrying out this responsibility, we work closely with other agencies represented on the panel. Responsible for operational implementation of non-agricultural trade agreements, Commerce's MTN activities are widely varied to encompass the range of agreements which came out of the MTN. The agreements for which Commerce administers programs or shares responsibility include the bilateral and multilateral tariff agreements, the nontariff measure codes (government procurement, product standards, import licensing, subsidies and countervailing measures, antidumping duties, and customs valuation) and the Agreement on Trade in Civil Aircraft. Following is a summary of our activities and our overall approach to implementing the MTN.

SURVEILLANCE OF FOREIGN ACTIVITIES

Surveillance of other countries' activities in the trade sphere is the first an critical step in ensuring that U.S. rights are protected under the MTN agreements. We have given this strong emphasis and are devoting much of our efforts to an active monitoring program. Commerce's program includes a number of activities:

We have drawn up detailed reporting requirements for U.S. posts overseas. These reporting requirements are tailored to each of the nontariff codes and the Aircraft Agreement, and appropriate versions have been issued to U.S. embassies in both signatory and non-signatory countries. Reporting on foreign trade activities is carried out by both Foreign Commercial Service and Foreign Service economic officers. The result is regular reporting to Washington on other countries' activities related to the MTN agreements. Alert reporting is filed as problems arise or complaints come to a post's attention. Reporting includes anything from rumors of difficulties with the certification procedures of a particular standards body to copies of new foreign regulations for government procurement announcements.

Training is provided to FCS or Foreign Service officers on the MTN agreements and problems to watch for, through periodic conferences (such as the USTR-organized MTN conferences in Geneva and Kuala Lumpur in 1980, or the periodic FCS commercial officers conferences) and briefings of commercial or economic officers at Commerce prior to taking up their overseas duties.

The Industry Sector Advisory Committees (ISACs) and associated Industry Functional Advisory Committees (IFACs) enable Commerce and other agencies to gain access to private sector knowledge of foreign government activities, and to share U.S. Government information on foreign implementation. As an example, the IFAC on Customs Matters frequently has good information on foreign implementation of the valuation agreement because of the members' ties with importers or customs brokers in other countries.

Private sector complaints, received through ISACs, IFACs, under Section 301, informally or directly from individual firms, are acted upon and investigated by Washington and overseas staffs. An example was an apparent case of discrimination, actionable under the Standards Code, against a U.S. small business trying to sell in West Germany. German standards officials were refusing to approve the firm's product (a machine for producing chocolate nut clusters) for sale in Germany; the only competitor was a German producer. Our combined efforts, with the active cooperation of the U.S. firm and its German agent, clarified the problem and established that there was no discrimination on Germany's part. The U.S. producer was able to make a slight change in his product and is now selling in Germany.

We participate in the international committees established under the MTN agreements that provide opportunities to question directly other governments on their activities. We also use bilateral consultations, such as those held with Canada earlier this month, and code procedures to gain more information. Certain required information is received from other signatories, usually through the Secretariat of the General Agreement on Tariffs and Trade (GATT), including notifications of official actions such as announcements of proposed mandatory standards, and aggregate data on trade performance.

Information on foreign performance, whatever the source, is reviewed by Commerce staff for consistency with the MTN agreements or the GATT itself. Much of this must be done by hand. To the extent possible, we are automating the information received through monitoring in Commerce's Trade Policy Information System (TPIS), for which a development contract has been let. In the meantime, the trade policy agencies are using a fledgling system built from the data processing capabilities of USTR, Commerce and other agencies. The TPIS is designed to include large amounts of trade flow and tariff data (including changes wrought by the MTN), as well as a comprehensive nontariff measure data base now under development. Our intention is to make any unclassified data available to the public once the TPIS is operational. We are exploring options for the best ways in which to do this.

Similar in concept to the TPIS but not as comprehensive, a Subsidy Information Library is being developed in conformance with the Trade Agreements Act of 1979. The Library exists in rudimentary form; further development is under contract.

ENFORCEMENT OF U.S. RIGHTS

Enforcement is a corollary to our surveillance activities. Following investigation of a trade complaint and development of a viable case, and after consultation with involved U.S. parties, Commerce will recommend action to enforce U.S. rights and preseve U.S. benefits whenever warranted by the facts of the case. While we still have only limited experience with enforcing the MTN agreements, we have tried to do so aggressively and thoroughly.

The combination of this aggressive approach and the availability of the dispute settlement procedures of the codes and the GATT, have, we believe, led to successful resolution of a number of trade problems at an early, informal, bilateral stage. In a sense, the emergence of a trade problem into the glare of a formal dispute proceeding represents a failure. We feel that the mere presence of the MTN agreements may be leading countries to resolve trade problems at an early stage, with less resort to brinksmanship. It seems clear that this has enabled us to resolve certain problems, at an earlier stage than would otherwise have been possible. In a recent case of discrimination in Japan against U.S.-produced metal baseball bats, our demarche to Japan has resulted in steps to ensure the openness of its certifying system.

Commerce is active in the interagency process on dispute settlement or enforcement actions and, depending on the case, Commerce personnel participate actively in bilateral or international efforts to resolve the matter. Once a case is resolved, Commerce along with other agencies monitors the other country's actions to provide early warning of any recurrence of a problem.

TAKING ADVANTAGE

Taking advantage of the MTN agreements presupposes that the U.S. private sector is aware of the agreements and their benefits. A massive public awareness campaign was indicated. We feel that we have partially accomplished this task, but much remains to be done in this area. We are going through a review within Commerce on how we can do more to help our private sector—especially in the area of Government Procurement.

Commerce has published eleven pamphlets describing the MTN agreements and discussing actions to take when encountering trade difficulties caused by a foreign government.

Extensive booklets on the agreements have been published or are awaiting publication. "Cookbooks" on subsidies and countervailing measures, government procurement, standards, and trade in civil aircraft are now available. Booklets on the remaining nontariff measure codes are written and should be printed soon.

Articles on the MTN agreements and Commerce's programs appear frequently in our house magazine, Business America. A recent example is an article on selling to Nippon Telegraph and Telephone in the August 24, 1981 issue.

As resources and time allow, Commerce and other agencies' personnel make speeches on the MTN agreements and participate in conferences and seminars with likely target audiences. We are also staging special MTN Seminar events around the country. During the last year, MTN speeches have been made or seminars conducted in New York, Baltimore, Boston, Los Angeles, Milwaukee, Honolulu, Newark, Cleveland, Miami and elsewhere. During the coming month, we have events planned in Seattle, Portland and Atlantic City.

Under Secretary Olmer led an official U.S. Trade Mission to Tokyo to participate in a special seminar on how to sell to Nippon Telegraph and Telephone (NTT). So far this year, the opening of NTT's procurements has contributed to three contracts for U.S. exporters and one for a U.S. firm manufacturing in Japan; we expect more to be forthcoming and are watching NTT's actions closely. Commerce and USTR also encouraged participation by U.S. telecommunications equipment suppliers in the NTT-sponsored seminars on selling to the private Japanese interconnect market, which were held in Washington and Los Angeles last spring. At least one firm, a maker of light-weight telephone headsets, feels that negotiation of the interconnect agreement with NTT was instrumental in gaining access to the lucrative Japanese interconnect market.

Enabling firms to take advantage of the MTN agreements requires more than just general awareness.

As we have described to the Committee staff during informal sessions, commerce has strengthened its Trade Opportunities Program (TOP) to cope with the increasing number of foreign government procurement opportunities resulting from the MTN. We are attempting to increase the number of subscribers to the TOP program, while maintaining or improving the speed and quality of the service. To cut down on the distribution time, we are beginning to work with the American Chambers of Commerce overseas to disseminate foreign government tenders to U.S. subsidiaries and agents/importers of American products.

To date over 1,000 notices of proposed government purchases have been published; over 450 from the European Community, 350 from Japan, and 75 from Canada. Although it is too early to know how many contracts U.S. firms have won, we do have indications that they are actively investigating the opportunities created by the Code. Major corporations have told us that they have identified important sales opportunities. We have heard from the Swedes that American firms have made numerous inquiries regarding Swedish procurement practices, although no U.S. bids have been submitted. Our Embassy in Tokyo has had many inquiries and bid submissions returned to it by the Government of Japan because they were improperly prepared or U.S. firms were unaware of the need to submit information in Japanese. We have received reports of similar experiences from our posts in Europe.

Commerce's trade promotion personnel have been briefed on the MTN agreements and, daily, whether in Washington, in the District Offices or in our Embassies overseas, are counselling U.S. exporters on taking advantage of the agreements.

From scratch, Commerce has developed a program for disseminating the notices being received of proposed mandatory standards in other countries. We are gaining wide distribution of these notices, which enable interested U.S. parties to comment on a foreign standard before it goes into effect, but we are not satisfied that we have done enough. The National Bureau of Standards is trying to automate the dissemination program in order to speed the process and reach a greater audience. NBS also houses the Standards Information Center and the Technical Office required by Title IV of the Trade Agreements Act of 1979 and the Standards Code.

Extensive use is made of the Commerce Business Daily and Business America to publicize actual procurement opportunities and proposed standards, as well as other MTN activities as they occur. We also encourage trade associations and other organizations to publicize MTN opportunities in their newsletters or magazines.

PROBLEMS

MTN implementation will never go as smoothly as we would like and we will always be confronted with the problems of one sort or another. I am speaking not only of troubles with other countries, but of the less obvious difficulties here at home.

The availability of resources for implementation will always be a problem, but one we must learn to work with. More disturbing to us is the lack of awareness by our own private sector to the opportunities raised by the MTN agreements. Perhaps this is because the agreements are still a novelty and private industry has not yet learned to deal with them or to come to us when they experience a problem with a foreign government. We must have the help of the private sector if the United States is to enforce or take advantage of these agreements. We must have a sharing of information between government and industry on the trade activities of other countries, so that we all have a complete picture of the trading environment and the tasks that need to be done. Perhaps most importantly, I sense a need for more aggressive marketing in the areas opened up by the MTN agreements.

We are constantly seeking to improve our MTN implementation programs, but we still have a long way to go and a great deal left to do for the United States. Close cooperation among U.S. government agencies is an essential element in our approach. It is impossible to do this without the willing help and participation of the private sector and the Congress. We worked extremely will together in concluding the Tokyo Round. We must continue that working relationship to get the most out of what was negotiated.

Chairman **Gibbons**. Thank you.

You know, I get the impression as I listen to you gentlemen sometimes the world must suffer and we must suffer from headlineitis. What you say is that things are going along pretty well. But if we watch the news in the evening or read the newspapers, we seem to think everything is going to hell.

I guess really the proper view is that neither one of them is correct, and that we are somewhere in between. But I want to applaud what has been done here.

As I said, I think the codes are a fine step forward. From what little I know about it, I think you have all done an effective job in implementing them.

Mr. Newkirk, how many people do you have working with you on this project?

Mr. **Newkirk**. Well, we have——

Chairman **Gibbons**. In the USTR office.

Mr. **Newkirk**. We have 115 people in USTR.

Chairman **Gibbons**. But they are not all doing that.

Mr. **Newkirk**. Well, in my particular office we have eight people.

Chairman **Gibbons**. Eight people.

Mr. **Newkirk**. Eight people. But we rely very heavily on the support of the Commerce Department to carry out our requirements.

Chairman **Gibbons**. How do the other people around the table fit into this?

Mr. **Newkirk**. Well, everything we do in the implementation process is done through the interagency mechanism. We have subcommittees of the Trade Policy Staff Committee that deal with each of the agreements and monitor the implementation process.

The way it works in practice is that we have meetings in USTR where every agency is represented, to discuss how the implementation process is going on and try to identify the problems and deal with them.

Chairman **Gibbons**. Dr. Mayer, is this much of a problem over in your department? What are you all doing?

STATEMENT OF DR. LEO MAYER, ASSOCIATE ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, DEPARTMENT OF AGRICULTURE

Mr. **Mayer**. Well, we have some 46 people who worry specifically about trade policy problems in the Foreign Agricultural Service. We work very closely with STR on this. We participate in the interagency process. We have people who follow all the different commodities, all the complaints that are filed, and we work with STR in providing them with technical information.

So we are very closely involved.

Chairman **Gibbons**. Mr. Waldmann, I guess most of the implementation falls on your agency. You said you didn't have enough personnel. Can you tell me how many you have got, and how you operate? I am going to get into something about how the Government procurement code works. But tell me something about the personnel you have involved first.

Mr. **Waldmann**. I would be glad to, Mr. Chairman.

As you know, the Commerce Department has a lot of different functions under these various codes. I would just like to summarize the activities and then the people that we have working on each aspect.

In the International Trade Administration, we have basically two parts of the department, two agencies—the trade policy questions, that is the questions that I was talking about that relate most closely to the monitoring and surveillance and implementation of the codes which are handled by our Office of Trade Agreements.

The Department's Deputy Assistant Secretary for Trade Agreements, Ms. Hughes, is sitting at my left. In that office we have 12 people who are involved in the implementation of these various codes, and working with the private sector to get the advice that we need on the problems that people see.

Our trade development operation within Commerce has basically two different functions. First of all, communicating the major opportunities to the private sector. This is the trade opportunities program.

And there are eight people who are involved in the trade opportunities program communicating the opportunities under the codes.

In addition, in the Office of Country Marketing, we have country specialists. Approximately 40 people are in this office—in the Office of Country Marketing, dealing with those countries which are signatories of the various codes and are totally informed about not just the rights under those codes, but the current opportunities.

Outside of ITA, within the National Bureau of Standards, the National Center for Standards and Certification Information [NCSCI] has eight staff members: Seven concerned with collecting, maintaining and disseminating general standards and certification information and one responsible for notifiying the GATT secretariat of proposed U.S. regulations that may significantly affect trade, maintaining information on foreign notifications and proposed regulations, and responding to inquiries on notifications.

We, of course, use the Foreign Commercial Service, which we talked about yesterday, for the purpose of monitoring foreign implementation of these codes. Obviously, this is concentrated in Japan and in Brussels where the community activities are most important.

But other signatory countries, where we do have foreign commercial service posts, are involved in the process as well.

I don't know how many people that adds up to, but we are talking about substantial numbers of people in the Department of Commerce.

Chairman GIBBONS. Let me ask you about how long it takes one of these notices under the Government procurement code, and how does the process actually work?

Suppose a foreign country was going to buy something. Tell me exactly what happens.

Mr. WALDMANN. Well, the Government Procurement Code provides for and requires 30 days between the time of the announcement of the bid and the closing of the bid. It could provide a longer time. But you must have at least 30 days.

When we receive the notice at a foreign post that there is a Government procurement, that notice is immediately transmitted by cable from the U.S. Embassy to two places—to the Department of Commerce in Washington, and also to the Commerce Business Daily Publication Office in Chicago. It is published in the Commerce Business Daily as soon as possible.

When the notice is received in Washington it is communicated directly by the TOP program, that is a part of trade development in ITA, to those companies or associations which would be most likely to be in a position to respond to that opportunity.

The time that it took initially when we first started this was on the order of 12 to 13 days. It is now down to 8 to 10 days—between the time that we receive the notice, or that it is published in a foreign capital, and the time that an American businessman has it on his desk.

Chairman **GIBBONS**. What burden is there upon the foreign country to get that into your hands?

Mr. **WALDMANN**. Well, in most of these cases we have to track it down ourselves. There are official publications which are specified in the Government Procurement Code, which the foreign governments must use for publishing these opportunities.

Chairman **GIBBONS**. The time starts from the time of their publication?

Mr. **WALDMANN**. I believe that is correct. But Mr. Newkirk, I think, could fill in some of those requirements.

Chairman **GIBBONS**. Unless they publish, then, you have a right to go back and protest. If you protest it, what action can be taken?

Mr. **NEWKIRK**. That is right. What we did in the Government Procurement Code was to start with the principle of free access to the Government procurement market. But in order to insure that that obligation is fulfilled, we set out very detailed rules in the Government Procurement Code on how particular contracts would be let.

The publication requirement is the first step in the process. But after that first step of publication, we have a whole series of obligations that countries undertake when they sign the code in terms of the process of letting a Government procurement contract. That involves not only publishing the request for tender, but invitation for tender too. It also includes providing information, providing full bid specifications, and answering any questions that the potential bidders might have.

It is a whole series of procedural obligations that countries have to follow. If they don't follow those procedural obligations they are in violation of the code, and we can take them to dispute settlement.

Chairman **GIBBONS**. You say it takes you about 12 days from the time you receive notice?

Mr. **WALDMANN**. That was the time it took earlier this year. We have made some improvements in the program. It is now down to 8 to 10 days.

Chairman **GIBBONS**. I assume any business entity could get on your list, your TOP list or your other list, just by making application to be notified?

Mr. **WALDMANN**. Well, there are three different communication means that the TOP program uses. There is a TOP bulletin, which is a weekly bulletin that goes out to about 3,000 firms. About 6,500 firms get notices through the mail. We also provide information to private data base services, so that if you are on a computerized data base system—there are several systems like this that pick up these opportunities, the State Department has one, Lockheed has one, and there are several other private systems—they pick up these opportunities as soon as they are received in Washington and put them on their computer systems.

That is in addition to the publication in the Commerce Business Daily, which anyone can subscribe to.

Chairman **GIBBONS**. I am just thinking about a small- or medium-sized businessman.

It would take him at least 10 days to 2 weeks to get the notice. Then what does he do? How does he get the details?

Mr. **WALDMANN**. The cable that comes back from the overseas post summarizes the procurement in sufficient detail, so that someone can tell whether or not he is interested. It is not merely a one-line announcement. It does provide some of the details of the procurement.

The documentation, the full documentation could, of course, be quite voluminous. That is where I think we need to think about how the small- and medium-sized company can best take advantage of those kinds of opportunities.

It is quite clear that if he starts off with information which is in a foreign language, which may be highly technical, which is provided by a foreign government in a foreign place, he has some real problems in responding to that. There is no question.

Chairman **GIBBONS**. He has to get on a plane and go there?

Mr. **WALDMANN**. I would think so, but perhaps not. There may be other ways to deal with these things that do not require the bidder to do that. He could use an agent. He could perhaps pool his resources with other companies.

We might be able to use the export trading companies we were talking about yesterday to respond to these kinds of things on behalf of American companies. It is not necessarily required that he get on an airplane, although I am sure that is the most effective way.

Chairman **GIBBONS**. Let's assume he does get on an airplane and goes there. What does he do when he gets to the foreign country?

Mr. **WALDMANN**. Well, if he is used to dealing with Government procurement he would have to respond to that procurement offer as best he can.

Chairman **GIBBONS**. We are trying to expand our operation to more American businesses. Let's assume he is not very familiar with it, but he thinks he has a good product and a good price. Where does he go when he gets off the plane?

Mr. **WALDMANN**. Well, I hope one of the places he considers going to is the embassy and the Foreign Commercial Service. They are, of course, in the market. They do know something about the Government procurement programs and policies.

They may know something about the foreign competition. They may be able to help him prepare his bid.

Chairman **GIBBONS**. He is going to have to do a lot of things. He is going to have to put up some kind of bond, I guess, or something like that. He is going to have to get his bid translated into the language. He is going to need a lot of support services, it appears to me.

Are our foreign commercial attachés in a position to do that—to help him with that?

Mr. WALDMANN. I think at some point we have to decide whether or not that is an appropriate role for a Government agency.

Chairman GIBBONS. I am not criticizing. I am just trying to find out.

Mr. WALDMANN. I would presume in most cases the embassy would not provide those kinds of services.

Chairman GIBBONS. We don't do it. Do other countries do that?

Mr. WALDMANN. I doubt it. But perhaps others here are more familiar.

Chairman GIBBONS. I see people nodding and shaking heads. What do other countries do?

Mr. NEWKIRK. Well, the level of Government support of commercial activities abroad differs greatly from country to country. Some countries, like the United Kingdom or Japan, have very active and extensive trade promotion programs that actually assist individual firms with the detailed assistance you just described.

Other countries provide less support. But it really comes down, as Mr. Waldmann says, to the role that the Government plays in commercial activity.

Chairman GIBBONS. Where do we fit in this picture?

Mr. NEWKIRK. We are about in the middle.

Mr. WALDMANN. Mr. Chairman, I think our promotion activities, that is getting the word to the American business community, is probably equal to any of the other competitors.

What I find is that the sort of on-site support in the foreign country, which is, of course, the thing that we are working on most intensively in the Foreign Commercial Service, and about which I know you are going to hear more today—I think that may be where we do tend to be a little bit more in the middle of the spectrum.

Chairman GIBBONS. Mr. Jones?

Mr. JONES. Thank you, Mr. Chairman.

Let me ask Mr. Newkirk to comment on NTT. You said that since NTT opened its procurement they are now printing their bids in English; is that correct?

Mr. NEWKIRK. That is right.

Mr. JONES. I have been following very closely, and one American manufacturer said NTT is still printing in Japanese and giving them only 30 days to respond to the bids. Do you have any indications of that?

Mr. NEWKIRK. Well, the requirement in the code is only 30 days. The initial publication in Japan is in something called Kampo, which is the equivalent of our Federal Register. They publish the invitation to tender. That is in Japanese, but simultaneous to that they officially issue an invitation to tender in English.

Mr. JONES. You are finding that is consistently adhered to. No complaints?

Mr. NEWKIRK. The NTT has been more diligent than the Japanese Government.

Mr. JONES. Has there been anyone besides Motorola sold to NTT?

Mr. NEWKIRK. Six firms have been sold to NTT. What we found with NTT is that the management of NTT, particularly Mr. Shinto, the president of NTT, has told their procurement officers, you got to start doing business in a different way. You can't pick up the phone any more and call your brothers-in-law in Osaka and order telecommunications equipment. You have to follow these procedures. And it is not easy for the top management to say that; but when it gets down to the actual procurement officers, telling them to alter the way they have done business is rather difficult. Their procurement has been rather slow since the agreement came into force because of that.

Mr. JONES. On Government procurement in Europe when the MTN was approved here, we reached a compromise that was not satisfactory from our perspective, but we were going to keep a close eye on whether or not the Europeans are opening up their market in heavy electrical equipment.

Mr. NEWKIRK. We have submitted to Congress a report required under section 302(c) that analyzes the situation, and the conclusion that we came to is the European market is closed to American competition; that as a result of that, European producers are able to sell domestically at a price sufficiently high to allow them to sell at a lower price in third country markets, and this is very detrimental to our electrical industry.

Mr. JONES. We have a very competitive one. What should we do about it?

Mr. NEWKIRK. We will be submitting a report that recommends the actions that the administration deems appropriate to deal with the countercyclical situation we face. If we are closed out in European markets, we have to face subsidized competition in third country markets while at the same time our private market is relatively open to foreign competition, so we will be submitting what actions we deem appropriate to rectify that situation.

Mr. JONES. When will that be submitted?

Mr. NEWKIRK. Within the next 10 days.

Mr. JONES. You also mentioned the relatively minor trade imbalance on baseball bats imported to Japan. That is a very clear signal of a nontariff barrier. Did I understand you to say that problem was being worked out?

Mr. NEWKIRK. The problem has been tricky because we are dealing with a private sports association in Japan. It is not a Government operation; the standards don't apply. But we went to them any way and said, it is ridiculous that this private sports organization says we will not certify imported products when we want to deal with Japanese firms, and the Government of Japan intervened on our behalf with this private sports organization and asked them to begin certifying imported products as well.

Within the last week, the private sports association agreed to abandon their previous system of certification and start a new system of certification that would be open to imported products as well. It is a very complicated solution.

Mr. JONES. Within the last week?

Mr. NEWKIRK. That is correct.

Mr. **Jones.** You are familiar with the TFC, I assume—the Trade Facilitation Committee. They have not had a new case in 2 years or so. Is there a reason for that?

Mr. **Waldmann.** This program is run by the Commerce Department, and one of the reasons we were concerned about the TFC was, in fact, precisely that problem. We did not see new cases coming along. We did discuss the problem with our Japanese counterparts and we agreed to raise the level of representation on the TFC to the undersecretary level, and the vice minister level, so that we would give this program a little bit more visibility.

We also went to the private sector, the business community, and as a result we now have presented seven new cases to the Japanese just within the last 5 or 6 days. We will be discussing those cases in detail in Tokyo in early December.

Mr. **Jones.** Thank you. I hope you will keep us posted on that, because this subcommittee and the Japanese task force is particularly interested in that mechanism or something similar to it, of an informal nature, for working out these tariff or non-tariff barriers.

I should probably hold this for Mr. Heginbotham, but I keep hearing that the commercial corps is not working, that the State Department keeps sniping away at it, that there is all kinds of interdepartmental bickering, that it is not getting off the ground, and that it is not selling or promoting U.S. products.

Mr. **Waldmann.** I am certainly glad you are going to be holding that question for him.

STATEMENT OF WILLIAM EDGAR, ACTING DEPUTY ASSISTANT SECRETARY FOR TRADE AND COMMERCIAL AFFAIRS, DEPARTMENT OF STATE

Mr. **Edgar.** I would like to address that on behalf of the State Department. It is not true that we are continually sniping at the Foreign Commercial Service. We are trying to support them in every way we can in the implementation of these MTN agreements. We consider this very important. This is something that is handled in our posts overseas by the Foreign Commercial Service officers and by economic officers. The burden is shared between them.

The commercial officers largely concentrate on the Government procurement code. In terms of the other codes, it depends what resources are available to meet the need. In the 75 posts where there are no Foreign Commercial Service officers, it is our embassy economic officers who are engaged in the process of code implementation.

This is something that we attach very high priority to in the State Department, and very high priority to working closely with the Foreign Commercial Service to make the codes work.

Mr. **Waldmann.** I didn't mean to be totally facetious. I do agree with what Mr. Edgar said. I have observed the commercial services overseas, both in the private sector and in government, for probably 15 years. We did see some transitional problems last year. Those are now all behind us, and I am very impressed with the kind of support we are getting from all the Embassy teams and the State Department.

It is very clear now that the embassies do put high priority on the export promotion activity.

Mr. **Jones**. Do we have 75?

Mr. **Waldmann**. There are 165 U.S. nationals in the Foreign Commercial Service. There are about 650 total in the Foreign Commercial Service, the rest being local employees, plus we have a support staff here in Washington which you will probably hear more about today.

Mr. **Jones**. On the valuation system with regard to Canada, some industry representatives have raised the concern that the conversion to the new valuation systems would be compensated for by raising tariff rates. This would leave U.S. exporters in a net position worse than the status quo. Could you comment on that?

Mr. **Newkirk**. The current Canadian valuation system is blatantly protective, and that is why one of our key objectives in the negotiations was to get them to adhere to the new valuation code. Throughout the negotiation they refused to participate because they said they were not going to give up their valuation system. In sort of the closing minutes of the negotiation, Ambassador Strauss convinced the Canadians that they ought to adopt the new system. Well, the Canadians were very reluctant to do so, in part because they had refused to participate in the negotiations, and also in part because they saw that they would have to give up a very useful tool for import control.

In the end they agreed to adopt the system, but on a longer term basis than the other major countries. The Canadians are currently studying how they are going to eliminate their current system and adopt a new system and this study comes in two parts. The first part was a study by their independent Tariff Board on what sort of implementing legislation that they would need, and that first part is completed. They have come up with a study that said how they intend to implement it, and they gave us the opportunity to comment on their study. We did, and we were able to reach a mutually satisfactory piece of paper on their implementation.

The second part is the more important study, and they are looking at their current level of actual protection; that is, not just in tariff rate but how much duty is paid on a particular item. They have got a dozen college students locked up in a warehouse with the actual invoices for a year of imports and they are figuring out the actual rate of protection.

When they complete that process, they will be publishing a second study which will be how much protection per line item actually existed. Now, we are going to——

Mr. **Newkirk**. We are very interested in this part two study. If it turns out that they want to raise all of their tariffs a great deal, we are obviously going to say that is not acceptable, We dealt with the ASP conversion, for example, by raising tariff rates to the actual level of protection, but that conversion was a subject for negotiation.

Mr. **Jones**. Now you are not concerned that by changing tariff rates they will overcompensate and become even more protective than they are now?

Mr. **Newkirk**. Intuitively, I am concerned.

Mr. JONES. Are there any safeguards that you have at your disposal?

Mr. NEWKIRK. Yes; we have article 28 of the GATT to negotiate any changes that they make, and we have sufficient resources to analyze what they do and decide whether they are ovecompensating or not. When that part two comes out, we are going to go over it with a fine-tooth comb.

Mr. JONES. What complaints have you heard from foreign countries, leveled against the United States, about our implementation of the MTN agreements, and have they been valid?

Mr. NEWKIRK. First, the United States has faithfully implemented every MTN agreement to the letter, and there is not another country in the world that can say that. Notwithstanding that, we have received some complaints in the Government procurement area in terms of coverage with regard to the Defense Department; but beyond that, there really have not been any complaints against the United States on implementation and, frankly, the complaints on our procurement implementation are unfounded.

Chairman GIBBONS. What part of our Government procurement is not covered by the MTN?

Mr. NEWKIRK. Because we were unable to get the Europeans to put their heavy electrical equipment sector, telecommunications and transportation systems under the Government code, we withheld the Government entities that buy those sorts of products from our Government Procurement Code coverage.

In addition, any sort of security item, planes, tanks, that sort of thing, they are excluded from coverage. Also the small minority business program is excluded from coverage. Entities like the Tennessee Valley Authority, Bonneville Dam, Department of Transportation, Department of Energy, they are all excluded.

Chairman GIBBONS. Well, what is left?

Mr. NEWKIRK. What is left is about——

Chairman GIBBONS. State and local governments excluded?

Mr. NEWKIRK [continuing]. $17 billion of Federal procurement.

Chairman GIBBONS. That is annual?

Mr. NEWKIRK. Last year. That is quite a large market, and we look at a market of about $30 billion of covered procurements.

Chairman GIBBONS. Worldwide?

Mr. NEWKIRK. Right, excluding the United States.

Chairman GIBBONS. Just as a rough guess, what percent of the potential market is not covered in either the United States or outside the United States?

Mr. NEWKIRK. Well, there are no figures available, but if we look just at what is not covered in the European market, we are probably looking at about 50 percent more than current coverage, just in Europe.

Chairman GIBBONS. In our own market? I mean in the U.S. market?

Mr. NEWKIRK. Of course——

Chairman GIBBONS. I just want a rough guess.

Mr. NEWKIRK. The total is about $100 billion a year, and $17 billion are now covered.

Chairman GIBBONS. How many billion dollars are covered?

Mr. **Newkirk**. $17 billion out of a total of about $100 billion, but a large part of that is the Defense Department security procurements.

Chairman **Gibbons**. Belt buckles, things like that?

Mr. **Newkirk**. Cruise missiles.

Mr. **Jones**. The $30 billion you mentioned worldwide is that covered by the procurement code?

Mr. **Newkirk**. Right. It is a $30 billion new market opportunity for American exporters.

Chairman **Gibbons**. We know how many things are published, and we know that you distribute them. How are we going to measure how successful this has been?

Mr. **Newkirk**. The measure of success will be the actual contracts won. We have found that, to date, U.S. companies are very reluctant to talk to us about their actual business dealings, but the code requires that countries keep records and statistics on which countries they bought from, and once we get these statistics, we will have some measure of the success of the agreement. It won't tell us which companies sold and which failed, but it will tell us the accurate figures of how much the United States sold to Japan or Canada, which will give us some idea whether the agreement is working.

Mr. **Waldmann**. In addition to those official foreign government statistics, we will also survey U.S. firms early next year, to find out whether or not they have had success under their procurement opportunities, and other code opportunities.

Chairman **Gibbons**. Well, I think that is going to be important, because when we go abroad and talk to people we constantly hear the complaints that the U.S. businessman is really not out there competing, and we come back and talk to American businessmen and they say: "Oh, yes, we are competing but those foreigners are discriminating against us in all kinds of ways."

I realize that is always going to be a problem. There is a little fudging on each side of that. How can we measure that? Are we trying to measure that?

Mr. **Waldmann**. I think probably the best thing we can do is to keep the lines of communication open, then, on both sides. We have got to hear from the business community what their problems are and try to measure their success, and in those cases where we find close cases, where we lose a major contract, we have to investigate it. We have to keep talking to the governments to find out how they are implementing their own procedures and to continue to press them to improve them.

We have been very successful in a few cases in getting the governments to live up to their obligations. We have got to continue to do that.

Chairman **Gibbons**. I have a whole host of other questions I won't have time to go into.

I must ask you a question, Ambassador Smith, since you must get back to Geneva. Recently a GATT panel issued a report on a case brought by the United States against Spain on soybean oil. This report was adverse because of the panel's misinterpretation of a GATT article as requiring a showing of injury to exports in addition to the violation of the national treatment provision. What is your assessment of the impact of this case in terms of the willingness of countries, including the United States, to bring cases for GATT dispute settlement?

Mr. SMITH. Mr. Chairman, if that report were to be adopted by the GATT Council, the impact would be very adverse to the trading interests of a large number of countries in this world. That report is not going to be adopted.

Chairman GIBBONS. Do you have any idea how the GATT dispute settlement process might be strengthened to avoid this kind of mistake?

Mr. SMITH. Well, I think one, well, yes, I have some ideas on that. First of all, we have had the practice in the last decade at least, that in the disputes brought before the GATT, we have, because either the United States, the Community, or Japan has been a party to many of these disputes, the GATT Secretariat has not used members, and in many cases rightly so, for these panels coming from any of those three countries.

Indeed, there has been a general reluctance to use the Americans, the Japanese or the Community. We think this is a mistake. There is no reason, if the dispute is between the United States and Zanzibar, there is no reason that the Japanese or the Community could not participate in that panel.

We have been running short, if you will, of panelists. We have traditionally gone to the Nordics, the Swiss, or the Austrians, and indeed some of those ambassadors have told me that they feel as if the only thing they are doing in Geneva is servicing the panels. We have to broaden the scope of that.

I am not particularly concerned that the Spanish soybean decision will reflect negatively on the dispute settlement mechanism or the willingness of countries to bring disputes to the GATT. One of the problems which has also been a failing in the last decade has been under the previous leadership the GATT Secretariat was not brought in, in my view, in a way which was consistent with their responsibility in these panels; that is to say, each of these panels has a GATT Secretariat adviser and I believe that the proper role of such an adviser is to draw to the attention of the panel members themselves what is GATT precedent and, frankly, what is GATT law and that is bad GATT law. I can assure you that since that Spanish soybean decision came out, I have had a number of discussions with the director general and the two deputy director generals, and it is safe to say that henceforth, panel reports will receive closer attention by the GATT Council before they see the light of day.

Chairman GIBBONS. How are these GATT dispute settlement panels constituted? How do you put one together, who serves on them?

Mr. SMITH. After the GATT Council has approved the establishment of a panel under the—let's take a GATT case as opposed to a code case. Then the chairman of the Council, together with the director general of the GATT, quietly go around and find out who is available in the first place, and, second, talk with both the plaintiff and the defendant, if I can use that legal term, to see if Mr. Jones or Mr. Richards of Country X or Country Y would be an acceptable panelist. This procedure goes on, oh, it takes normally a couple of weeks to do, and then when they have reached an agreement privately with the plaintiff and defendant, then at the next council meeting, and council meetings generally happen once a month, the chairman will announce the composition of the panel.

There has been a situation until recently, and I am not sure if it really happens today, where countries have their no list and yes list, and in one case in which the United States was involved with another major trading partner, that country came in with a list of 43 countries which it would not countenance being on a panel, and since there were 86 members, we were able to find another 43 from which that country could draw. We have tried to discourage countries from having a negative and a positive list. Obviously, there are cases, and legitimate cases, why a country would not want a particular, another particular country on a panel.

The last thing I would say is that the United States, and it is almost alone in this, has for a long time maintained the position that panelists need not come from governments, that they could be drawn from outside, people in the private sector, people from universities, former trade officials, things like that. I have had some discussions with the director general about this in the past 3 or 4 days. Given the fact that it is likely that there will be more recourse to the GATT dispute settlement mechanism, this I believe is an option which will have to be seriously considered; that is to say, countries will have to, as we sort of run out of panelists, so to speak, from governments will have to go onto the outside.

One of the problems we have had, not being able to do that very successfully, is the question of remuneration to the panels. If you are going to pick three panelists and one came from South America, Asia and Europe, how do you pay those people to go to Geneva and sit in a panel? Travel funds to Geneva are rather expensive and so are the hotels and food.

Chairman. GIBBONS. I have noticed that. As I say, I have a group of other questions to present.

[The questions and answers follow:]

Question. The European Communities signed the MTN agreements, including the government procurement code, on behalf of the Member States, thereby incurring a legal obligation for their community-wide implementation. In some other cases involving different Commission and Member State jurisdictions such as product standards, the Member States also signed.

Mr. Newkirk, you mention in your testimony that the U.S. is not pleased with a number of aspects of EC and Member State implementation of the government procurement code and point out that Italy has not implemented the agreement. What efforts to your knowledge is the EC Commission making to monitor and ensure Member State implementation and compliance with this and other agreements? What will be the U.S. response if the EC continues not to live up to its legal obligation?

Will data be available in sufficient detail from foreign countries to judge the results of the government procurement code with respect to individual countries, particularly the EC Member States, as well as by industry?

What is the status of the leasing issue and the prospects for agreement that government leased procurements are covered by the Code?

Answer. We understand the EC Commission officials have been monitoring, to some degree, the implementation efforts of the member states, although it is difficult to judge the level of effort which the Commission has put into this endeavor. We have been quick to raise any concern regarding member state compliance with the Commission. A number of problems have been ameliorated through this consultative process although, as we have said, several problems remain. If the EC does not satisfactorily implement the MTN agreement we will make full and vigorous use of the Codes' dispute settlement mechanisms to ensure reciprocity.

As required by the Government Procurement Code, data on Code covered procurement will be exchanged by all the signatories next year. This data will not be as detailed as we would like and we are continuing to discuss receiving more detailed information from the EC. However, it is our belief that the data plus information we are receiving from our Embassies and industry will provide a basis for judging the results of the Code.

Our fellow Code signatories do not currently share our viewing that leasing is covered by the Code. Pending a resolution of this issue we are treating leasing transactions as non-Code covered in order to maintain reciprocity. We are continuing to discuss this matter in the Government Procurement Committee in Geneva. However, we may not be able to resolve this issue to our satisfaction until renegotiation of the Code which must begin before 1984.

Question. To what extent have you received complaints from the private sector, either through advisory committees or in meetings with individual companies, about foreign noncompliance with the MTN agreements or erection of new barriers to get around them? Do you detect a reluctance of U.S. business to complain about foreign practices or noncompliance with the agreements for fear that they may lose future business in that country, particularly government procurement contracts? What is U.S. Government policy toward lodging complaints with foreign governments on behalf of foreign subsidiaries of U.S. companies?

Answer. To date, we have received few complaints from the private sector regarding Code compliance or evasion. In the standards area, as you are aware, we have received complaints regarding the UK's implementation of an EC directive on the chilling of poultry. It is difficult to judge whether firms are reluctant to complain about foreign Code infractions. We have encouraged firms to come forward if they detect problems and have offered to treat their input as confidential if they are concerned about loss of future business. It is our view that U.S. subsidiaries abroad should be treated the same as any other local firm by their host government. Where specific problems arise, we will decide based on the particulars of the case how best to seek redress.

Question. As indicated in the Ways and Means Committee report accompanying the Trade Agreements Act of 1979, it was Congress' understanding that a primary objective of the standards code was to provide that regional certification systems grant access to foreign or nonmember suppliers on a nondiscriminatory basis. Are U.S. suppliers to your knowledge getting that access? What are we doing to ensure meaningful access?

Answer. There have been no formal complaints from U.S. industry concerning denial of access to foreign certification systems. By and large, U.S. producers have not complained about access to certification systems. Even in informal discussions, there is only one instance of such a complaint. U.S. manufacturers of athletic equipment have stated that Japanese private associations do not make their certification marks available to foreign goods. However, since this issue was raised with the U.S. Government in May, 1981, there has been significant progress made by the Japanese central government to bring about a change in the practices of the affected private associations.

There has also been a significant change in the practices of foreign national and regional certification systems. For example, the European Standardization Committee (CEN, which maintains the CENCER certification system), is currently cooperating with the American National Standards Institute (ANSI) in order to make sure that U.S. producers have an opportunity to comment on proposed CEN standards. Similarly, a previously closed European electrical certification system (the CEE's CB system) has recently revised its rules to permit membership by any qualified country, and changed its name to reflect its newly attained international status.

The U.S. Government has raised the issue of access to foreign national and regional certification systems within the Committee on Technical Barriers to Trade. At the suggestion of the U.S. Delegation, the GATT Secretariat has compiled a list of regional certification systems including an indication of their accessibility to foreign producers. The pressure applied by the U.S. Delegation in Geneva has been a significant factor in ensuring that foreign systems are indeed in compliance with the standards code.

Question. The European Communities has proposed to enter into agreement with European regional standards bodies to develop standards. What access would U.S. suppliers have to those bodies if the Standards Code only applies to signatory governments? Isn't is possible that standards will be meaninglessly notified in the GATT after they are set in concrete by regional standards or unofficial consultations amoung national governments and companies as in Japan?

Answer. Articles 2.9 and 2.10 of the standards code require central government bodies of countries that participate in regional standards bodies to use their "best efforts" to ensure that the procedures of such bodies are in compliance with the standards code. Therefore, although regional bodies themselves are not required to conduct their activities in the "open", they are to be pressured to do so by their members. In addition, in case they do not, member countries are not to use any standards prepared by noncomplying regional bodies. Therefore, U.S. suppliers have a degree of access to bodies such as the European Standardization Committee (CEN). In addition, as noted in the answer to the question above, the American National Standards Institute has recently started a new program whereby they publish draft CEN standards for comment by U.S. interests.

Question. Have the long outstanding issues with Japan of standards and certification in the product areas of automobiles, cosmetics and pharmaceuticals been resolved? Does each U.S. car imported into Japan still have to be tested and individually certified or is company self-certification of model runs provided in Japan as it is for Japanese cars imported into the U.S.?

Answer. The U.S. Government has established bilateral standards related discussions under the auspices of the December, 1979, "Joint Statement on Standards, Testing and Certification Activities," to resolve the issues related to processed foods and cosmetics; discussions on automobiles are undertaken in a forum similar to this one. The only discussions on pharmaceuticals have been persued under the auspices of the Trade Facilitation Committee (TFC). While none of these issues have not been resolved as of yet, significant progress has been made in each case. For example, the Japanese have begun to publish a list of all ingredients permitted in cosmetics, so that U.S. suppliers will have access to the same information that is available to Japanese suppliers. With regard to automobiles, the Japanese Government issued a statement in May, 1980, containing measures they would take to facilitate the approval of U.S. imports into Japan. Thus far, the Japanese have implemented a good portion of these measures, although significant progress has yet to be made on the most important one, concerning certification for life-of-the-vehicle of catalytic converters. Processed food discussions, and because they are related, discussions on pharmaceuticals have moved forward in talks between the U.S. Food and Drug Administration (FDA) and the Japanese Ministry of Health and Welfare. The FDA has cooperated with USTR at every step along the way, and is a useful method of achieving success in this area because of its highly technical nature.

Under Japanese law, U.S. vehicles must be tested and approved under the "type approval" system, which does require individual inspection of each import. The U.S. Government, recently submitted to the Japanese Government a new proposal which would result in Japanese acceptance of test data generated in the United States to Japanese specifications. This proposal is based upon U.S. practices of accepting manufacturers' self-certification to U.S. National Highway Traffic Safety Administration (NHTSA) regulations.

Question. Very few developing countries have signed the customs valuation agreement despite the special and differential treatment offered these countries as incentive. What are we and other signatories doing to gain more LDC adherence? What is the status of our providing technical assistance to these countries for that purpose?

Answer. The number of developing country adherents to the Customs Valuation Code has been increased and now includes major developing countries such as Korea, India, Brazil, and Argentina. We, and other signatories, have been seeking adherence by additional developing countries through bilateral consultations. To the extent that limited budgetary resources allow, we will try to provide technical assistance to developing countries as an inducement to sign the Code.

Questions. What is your assessment of how well the Section 301 and GATT dispute settlement process is working?

To date there are only two cases which have been brought for dispute settlement under the MTN agreements. Both cases have been brought recently by the United States under the Subsidies Code (against EC export subsidies on wheat flour and sugar).

What are the reasons for this low activity under the codes, while at the same time countries have used the general GATT dispute settlement provisions with their looser time limits to a greater degree than before the MTN?

Answers. The GATT dispute settlement process is working quite well in encouraging informal resolution of issues prior to formally instituting dispute settlement procedures. About 90% of all disputes are settled in this manner, as was a 1980 Section 301 case involving Japanese export subsidies on rice.

There has been a great deal of recent activity in this area. At the present time, there are seven section 301 cases pending before the Office of the U.S. Trade Representative and four are proceeding under the Subsidies Code dispute settlement process. The status of those cases is as follows:

SUBJECT AND STATUS

EC wheat flour subsidies—Expect to take case to a Subsidies Code panel in January, 1982.

EC citrus preferences—Expect consultations under GATT Article XXIII:1 to be scheduled in near future.

EC sugar subsidies—Accepted on October 5, 1981. Have requested consultations with EC under Subsidies Code.

EC poultry subsidies—Accepted on October 28, 1981. Have requested consultations with EC under Subsidies Code.

Argentina hides export restrictions—Accepted on November 24, 1981. Have requested consultations with Argentina.

EC pasta subsidies—Accepted on November 30, 1981. Have requested consultations with EC under Subsidies Code.

EC canned fruit and raisin subsidies—USTR must accept or reject petition by December 14.

We believe it is too soon to predict how effective the MTN Codes, particularly the Subsidies Code, will be in settling disputes. To date only one case involving EC subsidies on wheat flour has reached the conciliation phase under the Code, and no cases have yet reached a Code panel. However, all Code cases are on a tight time schedule and we expect most of these cases to be completing dispute settlement by Spring or early Summer, 1982. We will be able to better assess the Code process at that time.

Questions. What types of unfair foreign investment practices do you consider would come within the section 301 definition of "an act, policy, or practice that is consistent with a trade agreement or unjustifiable, unreasonable or discriminatory and burdens or restricts U.S. commerce," i.e., how broadly would you define investment for 301 purposes?

Secondly, to what extent does section 301 authorize retaliation in kind with respect to foreign investment practices in terms of Presidential powers to act without further legislative authority, or is his authority limited primarily to duties or other restrictions on imports of goods or services in investment cases, for example, in response to foreign local content or other performance requirements? To what extent does the President have authority under section 301 to take reciprocal action on services.

Is further Presidential authority under section 301 on investment and services needed to deal with these problems and do you have plans to seek it?

Answers. There are no prescribed limits on the application of section 301 to foreign investment practices. In our view any type of investment policy, act or practice which satisfies the statutory criteria could be reviewed under section 301. For obvious reasons, however, we would not want to state in advance what specific types of practices would or would not result in initiation of an investigation under section 301. Each situation is approached on a case-by-case basis and numerous factors are taken into account.

While section 301 specificially authorizes retaliation in trade and services it does not contain specific provisions in the area of investment. However, since section 301 permits the President to take any other actions within his authority, we are currently reviewing what other Presidential authority exists in the investment field. Once we have determined what such authority exists outside of section 301, we will be in a better position to recommend whether additional Presidential authority is required.

It is our view that section 301, as currently drafted, already provides sufficient authority to deal with services issues, and it has, in fact, already been used effectively in an investigation involving Korean insurance practices, completed in December, 1980.

Chairman GIBBONS. I want to express my appreciation to the panel. I have not heard from Ms. Hughes today. How do you feel about leather?

Ms. HUGHES. That was one of the highlights of my career.

Chairman. GIBBONS. Right; we won't drag you through that again.

Thank you very much for coming in.

This is a panel on export development, Foreign Commercial Service, Foreign Agricultural Service, and U.S. Embassies' roles and operations. Our first witness is listed as Mr. William Morris, the Assistant Secretary of Commerce for Trade Development.

STATEMENT OF WILLIAM H. MORRIS, JR., ASSISTANT SECRETARY FOR TRADE DEVELOPMENT, DEPARTMENT OF COMMERCE

Mr. MORRIS. Thank you, Mr. Chairman. I have submitted a detailed report for the record, and I would like to give some brief remarks if I might.

Chairman. GIBBONS. Certainly; you go right ahead. Your entire statement will be placed in the record.

Mr. MORRIS. I am pleased to present to you a panel of representatives from the Departments of Commerce, Agriculture, and State. With me today are Erland Heginbotham, Director General of the U.S. Foreign Commercial Service of the Department of Commerce; William Edgar, Acting Deputy Assistant Secretary for Trade and Commercial Affairs, Department of State; and Richard A. Smith, Administrator, Foreign Agricultural Service of the Department of Agriculture. The subject of this panel is the role of trade development, the Foreign Commercial Service, Foreign Agricultural Service and U.S. Embassies in carrying out the challenging activities of export development.

We welcome this opportunity to present our views, especially at this time. The eighties will be a decade of challenges on all economic fronts, not the least of which will be to increase U.S. exports. We in the trade development business view this as both a problem and an opportunity.

Historically, U.S. economic policy has been made with little regard for its impact in the international arena. The United States has the largest domestic market in the world and the necessity for business to look beyond our shores as we built our Nation's industrial and agricultural strength was seldom recognized. Nor, in reality, was there an urgency to do so. Our predominance in world markets and an almost perpetual trade surplus up until 1972 are well known. It was only during the seventies that we faced our first serious trade problems and we accepted the challenge to improve our export base.

That international trade developments effect on our economy was recognized by the past several administrations. During the last few years the Departments of Commerce, State, Agriculture, Treasury, and others have begun to work together. This administration is committed to increased interagency cooperation and views it as vital if we are to reverse the trend of $120 billion of accumulated trade deficits since 1975. This is critical at a time when we face a predicted combined additional trade deficit of approximately $60 billion in 1981 and 1982. The health of the domestic economy can no longer be divorced from our international role. The creation of new jobs and employment stability at home is directly linked to our ability to expand U.S. exports.

A major challenge in the eighties is to improve our trade imbalance by developing a consistent and sound trade policy and to assist firms to take advantage of the opportunities which exist in the world marketplace. We must respond agressively to these challenges or risk losing our leadership, especially in such areas as high technology goods.

The trade environment which we are facing can be characterized by increased competition for a limited number of foreign markets. The dollar has appreciated against the currencies of many of our competitors because of high U.S. interest rates and improved U.S. prospects for reducing inflation. This has reduced demand for some types of U.S. manufactures and reduced the dollar cost of foreign imports. In spite of the dollar appreciation and worldwide economic slowdown, there are world markets which offer excellent prospects for U.S. business—if firms can be made aware of these opportunities and encouraged to take advantage of them. To help remedy the trade imbalance, we in Government must do our part to motivate U.S. firms to export and facilitate their doing so. We can succeed only if U.S. firms adopt exporting as a natural extension of their domestic marketing strategies.

We have only to look at the success of U.S. agricultural exports to see that this is indeed possible. Our agricultural trade surplus was about $27 billion in fiscal year 1981. Thirty-nine percent of U.S. cropland is devoted to production for export, in sharp contrast to the less than 10 percent of our manufactured goods which are exported.

This administration has established some basic principles and new directions for our export development programs. We have strengthened our efforts to encourage more U.S. firms, particularly small and medium-sized firms to export.

We are directing our energies toward encouraging the private sector to undertake increased export assistance activities and focus our efforts on providing those necessary activities that the private sector is unwilling or unable to provide.

We are directing our attention on areas where the Federal Government can really make a difference such as obtaining, analyzing, and disseminating trade information, and providing government-to-government representation for firms desiring to bid for foreign government procurement activities resulting from the multilateral trade negotiations [MTN].

We will undertake more extensive cooperation, program coordination, and information sharing with State agencies, with business and trade associations, and overseas U.S. Chambers of Commerce. These groups are generally closer in proximity to the individual exporters and, therefore, can more effectively assist them in their individual requests concerning exporting.

We will target our efforts on industries which have exceptional export prospects but which require intensive support to take advantage of the export opportunity. Coal is an area where there are excellent opportunities. Coal is the key to energy security for all oil dependent nations. World demand for coal is increasing more rapidly than predicted. U.S. steam coal exports already this year are ahead of 1985 predictions. For the first 6 months of 1981 we exported 14.8 million tons. For the long-term balance of trade deficits, coal exports are conservatively estimated at $6.5 billion by 1985 and $14.1 billion by the year 2000 in 1981 dollars. The International Trade Administration is coordinating the implementation of the national coal export policy. As chairman of the Coal Interagency

Working Group [CIWG], I am responsible for assuring that the potential impediments to the increased production, transportation, and shipping of export coal are minimized. Within Commerce, a coal export task force has also been formed. Overseas and domestic promotions will be undertaken, coal export marketing information assembled and provided, along with extensive industry liaison activities. Expansion of coal exports will create jobs, have favorable balance-of-trade effects, and reduce worldwide consumption of oil.

We will direct our program activities to countries with the greatest export growth potential for U.S. business. An excellent example of our efforts to do this, and of our efforts at greater cooperation with the private sector, is our planned four-country African Trade Mission. Participating in this mission will be Secretary of Commerce Baldrige, Secretary of Agriculture Block, and representatives from State, Export-Import Bank, OPIC, and other agencies.

Finally, each of our agencies is reviewing its own programs and its methods of doing business to determine how we can be more productive and more creative. The challenge of the 1980's is not solely to increase our exports but to do so with proportionally fewer taxpayer dollars.

At this time I will pass the microphone over to Director General Erland Heginbotham of the U.S. Foreign Commercial Service, who will share some of his thoughts with us. After he has completed his remarks, the members of the panel will be happy to answer any questions you might have about our individual or collective export development activities.

[The prepared statement follows:]

STATEMENT OF WILLIAM H. MORRIS, JR., ASSISTANT SECRETARY FOR TRADE DEVELOPMENT, DEPARTMENT OF COMMERCE

On behalf of the Departments of Commerce, Agriculture, and State, I welcome the opportunity to testify before this Subcommittee regarding our role in formulating and implementing U.S. export policy.

Expansion of U.S. trade is fundamental to the Administration's overall economic recovery plan. Private sector capital formation, job creation, productivity, and the growth of the economy are all directly aided by export growth and, in turn, support export growth. Without the steady expansion of export markets, downturns in the domestic economy have an even heavier impact on U.S. firms, their employees, and the economies of localities, states, and the nation as a whole. The importance of exports to our economy cannot be denied. Although estimates of jobs created by export sales vary within a range of from 20 to 40 jobs per million dollars of export sales, the positive job creation effect is clear. The task of increasing U.S. exports is a top priority of this Administration, and a cornerstone of the President's Economic Recovery Program. We must vigorously promote the export of U.S. goods and services, provide new and innovative assistance to existing and potential exporters, serve as a catalyst to expanded export activity and, where appropriate, provide government representation necessary to support U.S. firms in their overseas marketing. The Secretaries of Commerce, Agriculture and State have each adopted expansion of U.S. exports as a major goal. Within Commerce, the International Trade Administration (ITA), the Trade Development unit and Foreign Commercial Service (FCS) in particular, are responsible for achieving this objective. The primary mission of the Foreign Agricultural Service (FAS) is to help U.S. farmers and agricultural traders increase agricultural export sales. Secretary Haig has also instructed our Ambassadors to involve themselves personally in leading the U.S. government commercial effort in their countries. While post commercial and economic officers are their primary resource, their entire missions are being engaged in this cause.

The trade environment in which both we and our competitors find ourselves in the 1980's is one characterized primarily by increasing competition for limited markets. The dollar is currently at its highest level since 1971, because of high U.S.

interest rates and improved U.S. prospects for reducing inflation. The appreciation of the dollar against the currencies of many of our major competitors has significantly reduced the competitive edge of U.S. manufacturers. Coupled with the worldwide economic slowdown, this has reduced the demand for some U.S. products. These factors have also increased international competition for those few markets, particularly in the rapidly developing countries, which still represent excellent export opportunties. While the recent MTN, tariff reductions have opened significant new markets for U.S. firms, these too will be highly competitive. The Departments of Commerce, Agriculture and State are assisting firms to take advantage of this and future policy breakthroughs.

Overall annual U.S. export growth which reached 15.2 percent in real terms in 1978, had declined to only 9 percent in 1980. It is projected to average just 5 percent annually over the 1980–84 period. The United States with manufactured exports of $144 billion was once the leader in international trade in manufactures, but now ranks second behind West Germany ($166.9 billion), and just ahead of Japan ($124.4 billion). The U.S. share of total manufactured exports has fallen from almost 30 percent in the late 1950's to 21.3 percent in 1970. In 1975 it was 19.1 percent, but has dropped to 18.3 percent by the end of 1980. Other major U.S. competitors experienced similar declines over the 1970–1980 period, except France and Japan which had modest increases.

The picture for agricultural exports is far more positive. In fiscal year 1981, we estimate that agricultural exports reached about $44 billion, and that our agricultural trade surplus approximated $27 billion. U.S. agricultural exports have increased six times in value since 1970 (unadjusted for inflation), and our agricultural trade surplus has increased by a factor of about 20 in that same period. Thirty-nine percent of U.S. harvested cropland is devoted to production for export. Seventy percent of our wheat production, sixty percent of our rice production, one-third of U.S. corn, more than one-half of our cotton and one-half of our soybean production are exported. This is in sharp contrast to the less than 10 percent of our output of manufactured goods exported.

The success of our Agricultural exports offsets, to some extent, the decreasing rate in manufacturers exports. As of the second quarter of 1981, the total U.S. trade deficit reached an annual rate of $28.1 billion, a substantial increase from the total 1980 deficit of $24.2 billion. In looking at specific markets, the U.S. had its largest trade surplus with Western Europe. The U.S. also recorded surpluses with communist countries and non-oil producing LDCs. As has been the case in recent years, the most significant portion of our deficit is with OPEC nations, followed by Japan and Canada. Illustrative of the deficits with OPEC countries is our $10 billion trade deficit with Nigeria.

In spite of this environment, there are world markets which offer excellent prospects for U.S. firms, if firms can be made aware of such opportunities and assisted to take advantage of them.

For manufactures, the markets for computers, telecommunications equipment, medical instruments, and instrumentation are strong in Asia. Best prospects for U.S. exports to Latin America include computers, construction machinery, telecommunications equipment and electrical power equipment. Construction machinery and electrical power generating and transmitting equipment have excellent potential export markets in the Middle East. In Europe, computers, medical instruments, telecommunications equipment and instrumentation are prime targets for U.S. firms seeking to expand their sales.

It is also essential that we continue our efforts to develop trade and economic ties with communist countries, in a manner consistent with our broader political and security interests. Though the volume of East-West trade grew rapidly in the 1970's (from $15 billion in 1970 to $106 billion in 1980), the current slowdown in economic growth of most Eastern European countries and high levels of hard currency debt have caused some of them to become more selective in importing from the West. As a result, our trade promotion efforts will focus on trying to increase our share of this market. The continued development of our commercial relations with China will particularly have a high priority. We have recently established the U.S.-China Joint Commission on Commerce and Trade. The Commission represents a new effort by this Government to strengthen our commercial relations with China and to advance American industries' participation in China's vast development program.

A consistent and steady trade policy, which is the aim of this Administration, is critical if we are to take advantage of the opportunities which exist and overcome impediments in the world marketplace. Congress, as well as the Executive Branch, more than ever before, needs to know the outlook for trade and agriculture production in making legislative and policy decisions.

While there is a general awareness of the need to export, the business community must be convinced to build on that awareness. The farmer or manufacturer today who makes investment, production, and marketing decisions without reference to the world market could well come face-to-face with failure. We must encourage U.S. business to adopt exporting as a natural extension of their marketing strategies—as a critical element of the health of their businesses—not as a one-time activity. We must prime business to take advantage of significant policy breakthroughs, such as those of the MTN, and assist them to do so. In addition to the counseling and overseas events which we have traditionally offered, we must improve our information collection and dissemination efforts to ensure that farmers and manufacturers receive fast, accurate, global information on commercial developments. This is particularly important in rapidly developing or difficult to penetrate markets. Even in developed markets we can do a better job of assisting experienced exporters to market their new products and technologies. Within Commerce, Trade Developement accomplishes this by targeting our resources toward encouraging more firms, particularly the small and medium-sized ones, and current exporters to enter new markets and by providing more intensive support to industries which have exceptional export prospects. Agriculture is also focusing its efforts on three major functions: providing information, gaining market access, and developing markets.

An example of our intensified efforts is a new multi-agency effort to promote U.S. coal exports. Coal represents one of the most important opportunities for increasing U.S. exports. America has more recoverable coal reserves than any other nation: over 475 billion tons, about 28 percent of world reserves. The coal industy has more than doubled exports in the last two years (from 41 million tons in 1978 to 92 million tons in 1980). Steam coal exports alone are forecast to double or triple in volume by 1985 (up to 70 million tons). The Department of Commerce is coordinating the implementation of the National Coal Export Policy which includes promotion of improvements and expansions in U.S. coal mining, processing, transportation, and port facilities, and provision of information on coal export opportunities to companies in the industry. Overseas and domestic promotions will be undertaken, coal export marketing information assembled and provided, along with intensive industry liaison activities. Expansion of coal exports will create jobs, have favorable balance of trade effects, and reduce world-wide consumption of oil.

The International Trade Administration is directing more of its resources toward countries and regions such as Asia, Latin America and Africa where longer term export prospects are excellent. Our belief is that we must focus our resources on markets which offer exellent growth prospects but which require U.S. government support if U.S. firms are to be successful in establishing a marketing presence. We believe this targeted approach is the most effective way to expand U.S. exports and contribute to economic growth. Consistent with Administration policy, all three Departments intend to reach a greater number of U.S. fims by making better use of state, private sector, and business and trade association export expansion groups. Many of the states have become active in export expansion as an outgrowth of the earlier efforts which were focused on encouraging foreign direct investment in their states. They now view exports as we do, as a vehicle for job creation and economic growth. We will be taking actions to encourage states and private sector groups to take over activities which they can best do themselves, in order to concentrate our efforts on providing the types of assistance which they cannot. The thrust of this Administration's efforts is to facilitate and promote; but also to complement and supplement non-Federal efforts rather than duplicate them.

Agriculture's FAS cooperator program is an excellent illustration of this approach. The FAS has established a comprehensive market development program involving more than 50 nonprofit agricultural producer and trade groups organized along commodity lines. These market develop cooperators stimulate exports of their commodities by technical assistance, trade servicing, trade team exchanges, and direct consumer promotion in foreign markets. The work is monitored by FAS, and funding is shared. Cooperators have been at the forefront in establishing foreign markets for U.S. agriculture.

The diversity of the U.S. industries served by the departments of Commerce and State may preclude use of cooperator-type arrangements by these Departments. Nevertheless, we are exploring ways in which the FAS model may be adapted to our programs and we will be making increasing use of overseas chambers of commerce, business and trade associations, and state export groups to expand exports.

We liken our interaction with firms to a parabola. We work closely with a continuous flow of companies which are just beginning to export. As these firms gain experience they tend to require less direct assistance; therefore, our level of interaction diminishes. Experienced exporters come back to us for assistance in penetrating new markets or for government-to-government representation support.

Our level of support increases and diminishes over time as firms gain export experience and expertise, and as their specific needs change. It is not our mission to hand-hold or directly intervene in firms' export marketing activities. We can offer them information and services, provide a government presence to support them overseas, and, through our efforts, encourage state governments, trade associations, and business organizations to do the same. If we can convince them to export, facilitate their entry into export markets, and, by our trade policy, support them in their overseas marketing efforts we will have done our job.

The FAS is committed to a similar goal: to help American farmers and traders to increase export sales. The U.S. Government has a unique role to play in a world where state trading is so common and economic decisions are so often political. At the same time, our economic system requires, in the final analysis, that the private sector do the selling. We in Government do not carry order books, but work closely with industry enlisting their help in carrying out our national goal of export expanison.

Broadly stated, this Administration's commitment is to expand U.S. exports through:

A consistent trade policy;

Expanded use of states and the private sector; and

Enhanced inter-agency cooperation.

Let me highlight for you the trade promotion responsibilities and activities of each of our Agencies. The Trade Development (TD) unit of ITA develops and, in conjunction with the U.S. Foreign Commercial Service (FCS), administers programs designed to promote U.S. trade and strengthen the U.S. international investment posture. The objective of our activities is to expand the dollar volume of U.S. exports. Our activities are performed in concert with the Departments of State and Agriculture.

The three TD units, Export Development (ED), East-West Trade (EWT), and the U.S. Commercial Service (USCS), together with the FCS provide a comprehensive system of export promotion services for U.S. firms. These units are responsible for motivating and facilitating U.S. business to export. Specific activities include:

Collection and dissemination of economic and commercial information on overseas markets;

Provisions of expert consultation on both industry and country export opportunities, and export procedures and practices;

Sponsorship and coordination of overseas trade shows at which U.S. firms display products or literature, make business contacts, and obtain sales and trade leads;

Maintenance of 12 worldwide Export Development Offices, and four trade development facilities in the USSR, Poland, Czechoslovakia and Hungary, to provide regional marketing support to business in cooperation with the Department of State, as well as support of the American Institute in Taiwan office in Taiwan;

Government-to-government facilitative support for U.S. firms pursuing major overseas contracts; and

Providing a forum for U.S. business to convey export-related problems to Federal policy makers through the President's Export Council (PEC) and, on the local level, the District Export Councils (DEC).

In Washington, the Export Development unit is responsbile for planning and directing trade development activities which require central coordination. East-West Trade performs similar activities for communist countries, with the additional responsibility for policy development. The USCS is the domestic delivery arm for all TD programs. The USCS maintains a network of 47 local District Offices serving the 50 States and Puerto Rico to provide counseling and information services, acts as liaison for export assistance efforts undertaken by State and local entities, and conducts Federal Procurement Conferences. USCS also works closely with 47 District Export Councils, composed of 1,800 volunteer representatives of primarily small and medium-size businesses, who provide assistance to other businesses and advice to the Federal Government on their export needs.

The FCS is the overseas service delivery arm for trade development services and provides the overseas support required to implement ITA's and many other agencies' export development activities. The FCS is a key link in a fully-integrated Commerce system designed to provide trade development services in a more comprehensive manner than was previously the case. In addition to operating trade development programs overseas, the FCS has the responsibility for counseling U.S. business overseas, and for monitoring U.S.firms' rights and opportunities created by multilateral trade agreements. The FCS has a lead role in ensuring that U.S. firms are able to take full advantage of MTN opportunities.

The FCS, which experienced some start-up difficulties as a result of less than adequate financing and the necessity to smooth out operating procedures both within Commerce and with the Department of State, is sending fifty newly recruited career FCS officers to their duty stations. They will augment and replace the inherited DOS officers over the next three years as provided for in the terms of the reorganization. Thus only in October, 1981 has the FCS begun operating in a meaningful sense as a new organization with its own budget and one-third of its career staff selected by its own management. Our recruiting success is due in large part to the assistance of U.S. Chambers of Commerce overseas and the District Export Councils.

A few of the major accomplishments of Trade Development and the FCS during the past year are:

Over 250 overseas trade events;
Responses to 750,000 overseas and 167,000 domestic counseling requests;
Seminars attended by over 250,000 business persons;
Assistance to 1,200 firms interested in pursuing major project opportunities.

In support of trade development ITA also jointly operates, with the Office of the U.S. Trade Representative, the Industry Consultations Program. This is the centerpiece of the Department's efforts to incorporate comprehensive industry advice into the Executive Branch's formulation of U.S. trade policy. Program changes instituted in September 1980 resulted in improved operational procedures and a coordinated, expanded work program. Approximately 100 meetings have been held since the inception of the revised program. These major types of assistance reveal the integrated nature of the ITA organization. Units of TD and the FCS are highly interdependent. To a significant extent this is characteristic of the relationship between ITA and the Department of State as well. It is also true of the interaction among Commerce, State and the Foreign Agricultural Service. Overseas, the FCS is the focal point for coordinating efforts of the Department of Commerce with the policy and mission of the country team in order to ensure that Commerce activities are consistent with the overall country program established by the Department of State. The senior FAS officer is also a member of this country team.

Turning to State, one of the traditional functions of that Department has been to promote and protect American business interests abroad. Under Secretary Haig, this objective has been expanded and established as a central priority for both the Department in Washington and our missions overseas. Ambassadors, who are the personal representatives of the President and who oversee U.S. Government programs and activities at their posts will be playing a more active role in support of U.S. business efforts. The Secretary was very clear in his most recent instructions sent to all Ambassadors last June: "I look to you to involve yourself personally in leading the U.S. Government commercial effort in your country." There can be no "half-hearted, unsustained efforts or lip service. It must be a convinction and a major purpose in your ambassadorial stewardship."

This is a team effort and the Department is fully supporting the officers of the Commerce Department's Foreign Commercial Service who now operate in the 66 countries which comprise our largest export markets. In these countries, FCS officers form the leading edge of our export expansion efforts overseas. It is the clear policy of both Departments to work together in the achievement of our national objective of aggressively expanding export opportunities for U.S. business.

In the remaining 75 countries in which we maintain diplomatic relations, State Department economic officers are responsible for carrying out our commercial programs. The embassies in those countries will seek to provide the best available commercial services to businessmen operating in these countries. These are not necessarily major markets, but they are often fast-growing and cumulatively they account for approximately $16 billion in U.S. exports.

In all our embassies we are seeking to be more responsive to the needs of companies which need political and economic background information to help them assess the risks involved in making major investments or bidding on very large projects. The posts' economic and political sections can provide valuable insights. The State Department is also being more supportive of U.S. corporations requiring ambassadorial action to ensure that American firms compete on an equal political footing with competitor companies from other industralized countries.

In Washington, the State Department has an Under Secretary for Economic Affairs, who is responsible for all international economic issues. Increasingly, the Under Secretary's office is concerned with the overseas needs of American businesses.

The Assistant Secretary for Economics and Business heads a bureau of 225 people who handle, in addition to trade and commercial affairs, issues relating to international finance and development, food policy, commodities, transportation, telecommunications and energy. Many of these issues have important commercial ramifications. Within the bureau, the Office of Commercial Affairs has been established as the central point of contact for State Department assistance to the business community. This office will aid in export promotion efforts, removal of export disincentives and helping solve problems for business abroad by cutting through bureaucratic tangles which sometimes prevent a timely solution to such problems.

In a very real sense, however, most of the State Department is concerned with these issues. As the economic component of American foreign policy has grown so have the economic elements of the State Department. There is at least one officer on each country desk who follows economic activities in detail. In addition, each geographic bureau has a commercial coordinator whose specific responsibility is to ensure that commercial and business concerns receive priority attention. So, from the very senior levels of the Department to the expert working level, and across a wide range of bureaus and functions, there is a substantial body of professionals who are contributing directly or indirectly to trade expansion efforts.

For the next few minutes I would like to discuss the organization of FAS: the agency and its parts, and how they function as a unit. The Foreign Agricultural Service is organized to provide three basic services to support export growth. They are (1) to provide agricultural and trade information from around the world; (2) to secure and maintain market access for U.S. product in foreign markets; and (3) to assist in export market development. Over the years, the FAS has developed a worldwide agricultural information network that is second to none. It is based on field reports from agricultural attaches and counselors on conditions in more than 100 countries. these reports are augmented by crop assessments from computer-aided analysis of satellite and meteorological data.

The FAS also works to maintain and improve access to foreign markets for U.S. agricultural products through the International Trade Policy unit which coordinates and directs USDA activities in international agreements and negotiations; it identifies trade barriers, and negotiates to remove them, working with other U.S. government agencies. A major responsibility has been that of monitoring the implementation of the tariff concessions and trading codes that were negotiated in the MTN.

The FAS also has a range of programs to help producer groups and private exporters increase foreign sales which include:

The cooperator program which stimulates exports of commodities through technical assistance, trade servicing, trade team exchanges, and direct consumer promotion in foreign markets;

The Trade Opportunity Referral Service (TORS), a computerized system that relays foreign buyer product request to the appropriate American suppliers;

Trade shows for foreign buyers and in-store promotions in foreign markets to attract attention to U.S. foods;

And about 40 private companies are participating in FAS Export Incentive Programs to promote brand name foods overseas.

To augment the export assistance provided by U.S. agricultural attaches and counselors overseas, the FAS also operates 7 overseas Agricultural Trade Offices. Trade officers are posted at three more locations—Tunis, Lagos, and Beijing. The 10 locations cover the major trading regions of the world.

The FAS is also working closely with the individual state's agricultural departments and with their four regional export organizations to coordinate and broaden the base of its market development activities.

Cooperator-type agreements have been established with the regional groups and the FAS depends heavily on state units to support Trade Opportunities Referral System (TORS) supplier and contacts listings, trade show assistance, and perform foreign market survey work.

Credit is also necessary to market expansion, and the Public Law 480 program and the Commodity Credit Corporation (CCC) export credit and credit guarantee programs have been integrated into the FAS market development structure.

The three separate functions of the FAS are brought together to accomplish its mission of export expansion. The critical element in FAS essential to each of these functions is the work of the agricultural attaches and counselors.

FAS's objective is well-informed farmers and exporters who will have the information they need to maximize their export opportunities. The FAS has taken significant strides to increase the amount of up-to-date information available to U.S. firms by using data communications and reporting that make optimum use of computer technology. These include the following:

Establishment in FAS of a crop condition assessment unit in 1978 which uses advanced computer and communications capabilities to collect and analyze satellite weather and agricultural data to make crop assessments on a global basis;

Installation of a terminal support system computer in Washington to link with Foreign Crop condition Assessment Division (FCCAD) computers in Houston, Texas. It gives Washington analysts access to automated data bases for target countries, and also permits direct transmission of daily weather data to Houston for analysis;

More intensive use of the remote sensing capabilities provided by the Landsat and meteorological satellites, which enables Agriculture to monitor crop and weather conditions in major production areas around the world; and

FAS has obtained access to the State Department's new global telecommunications network, which opened the way for worldwide data exchange via computer. This Global Economic Data Exchange System (GEDES) will allow the attaches and trade officers to transmit trade leads to FAS, which will be put into the TORS system for same-day forwarding to U.S. exporters. This is a significant step in providing the U.S. exporter with a time advantage over his competitors.

In the near future, the attaches will also be able to make direct use of satellite intelligence, by receiving reports on-line from FAS' Foreign Crop Condition Assessment Division in Houston. These will help in alerting the attache to developments that should be closely monitored or crop areas that deserve a special visit.

In summary, the objective of the trade development activities of the Departments of Commerce, State and Agriculture is better informed business executives, regardless of where they are located, their product or service line, who are committed to exporting as an everyday business activity. We in Government must develop and sustain a trade policy and program mix that allows them to take full advantage of export marketing opportunities.

Chairman GIBBONS. Thank you, Mr. Morris.

STATEMENT OF ERLAND H. HEGINBOTHAM, DIRECTOR GENERAL OF THE FOREIGN COMMERCIAL SERVICE, DEPARTMENT OF COMMERCE

Mr. HEGINBOTHAM. Mr. Chairman, I welcome this opportunity to relate briefly the role of the U.S. Foreign Commercial Service in our export development activities, and to bring you up to date on our progress.

The Trade Reorganization Act of 1979 established the U.S. Foreign Commercial Service on April 1, 1980. The FCS represents the primary means by which the U.S. Government provides overseas support and assistance in response to the needs of the U.S. business community. Located in 66 countries where U.S. international economic and commercial interests are of major importance, the FCS has a worldwide complement of approximately 162 commercial officers and 500 Foreign Service nationals. Our primary goal is to improve our services to U.S. business in promoting U.S. exports.

In addition to providing direct counseling, help and commercial information to U.S. business, the FCS is the overseas delivery arm service for the Department of Commerce's trade development programs, and also supports overseas the programs and operations of the Export-Import Bank, the U.S. Trade Representative, Overseas Private Investment Corporation [OPIC] and other agencies. The FCS also works closely with the Department's U.S. Commercial Service—the domestic arm of trade development.

The FCS helps U.S. business abroad by developing commercial information and business leads; advising and assisting business in trade and investment matters; identifying and following up on trade and investment opportunities, including those arising from codes negotiated under the MTN; implementing trade promotion events; monitoring and analyzing local laws, regulations, and practices that affect market access and overall business conditions; and we safeguard U.S. commercial and investment interests by assuring host government and business compliance with bilateral and multilateral trade agreements.

The FCS competes at a great disadvantage with the professional commercial services of other industrial nations. The U.S. Foreign Commercial Service has considerably fewer officers and staff than, for example, France, the United Kingdom, Italy, or Japan. Our service is roughly the same size as Australia's. Allowing for the much greater size of our economy and export sector, and for our lack of many of the promotion techniques and resources compared with those of our trading partners, our disadvantage is all the greater. Because the United States suffers major structural disadvantages as an exporter, we must make every effort to compensate. For this reason the FCS is trying to maximize its contributions by major upgrading of personnel, by staffing with highly qualified experts in marketing, promotion, and management; regrouping resources into the most promising markets; intensifying efforts to get the greatest export payoff per dollar, time and unit of effort expended; and by building closer, more collaborative working relations with U.S. business organizations concerned with foreign markets.

In this effort the FCS has succeeded in establishing new directions and in becoming a link in a fully integrated system to provide export development services to U.S. business.

I have just returned from management meetings with 45 of our 66 senior officers and from joint meetings between our officers and U.S. business leaders in Europe and Asia. These meetings have set the stage for promising new departures. They produced ambitious plans for cooperation between our officers and American Chambers of Commerce in some 30 major country markets. They introduced management techniques to help us measure and evaluate our costs and effectiveness. They initiated decentralization of management functions to permit and encourage officers abroad to improve their operations through collegial efforts and local initiatives. And they inaugurated a new FCS capability to support regional as well as country marketing interests of U.S. business.

In addition to improving our performance in individual countries, we still face a compelling need to redeploy our limited personnel and budget resources to provide the greatest possible benefit to U.S. business. First, we have underway now a detailed assessment of worldwide staffing and progressive efforts to redeploy FCS staffing according to need into international markets with the greatest growth potential. Second, we are pursuing ways to increase greatly the productivity of our efforts by contracting for our fine commercial services, by greater use of the tremendous power of word processing, by collaborating more closely with overseas U.S. Chambers of Commerce, and by encouraging trade associations to underwrite market research or staff abroad which can serve their industries by complementing the resources and capabilities of the FCS, following the very successful cooperator formula innovated by the Foreign Agricultural Service. However, our resources are limited, but we can do an effective job within those limits if we can overcome some restrictions on our ability to use present budget resources.

Overall, since the Congress indicated its intent to see created a separate and independent Foreign Commercial Service, we have gone far down that road. To create a separate and distinct service, the originating State-Commerce memorandum of understanding provided that senior commercial officers would report directly to the Ambassador or the Deputy Chief of Mission and would be a member of each Embassy's country team. At the outset we defined with the Department of State several instructions to clarify distinctions in functional responsibilities between economic and commercial sections. As a result, the reorganization has given the FCS a separate identity and status and permitted us to realine functions and establish clear commercial objectives and priorities.

Based on my recent meetings with 45 of our 66 senior officers I am satisfied that in the vast majority of posts we have achieved working and reporting relations within the Embassy which are in those respects fully comparable to the separate status enjoyed by the Foreign Agricultural Service.

At the same time, having inherited overseas staff levels significantly lower than those of 6 years ago, FCS depends heavily for its success and effectiveness on cooperative and closely coordinated relations with sister services overseas. I am satisfied that through the good will of all concerned we have struck a good balance between separate status and cooperative relations. Secretaries Baldrige and Haig have recently reinforced the priority for effective commercial work in posts abroad by urging all Ambassadors to play an active part in promoting the trade and investment interests of the United States. Together we are working aggressively to strengthen the international position of the United States and thereby to help reinvigorate the U.S. domestic economy.

In closing, Mr. Chairman, I see the FCS making good progress toward providing increasingly effective service to the business community. I was especially pleased to observe in the field the new strength which our newly arrived private sector recruits are already beginning to bring to our service and the new spirit I find among our experienced officers. While we face many difficult problems and have many shortcomings to conquer, I am satisfied, from the increasing flow of letters of appreciation, that our direction is right and that our progress is clearly discernable.

Thank you, Mr. Chairman.

Chairman GIBBONS. Do we have others that have prepared statements?

STATEMENT OF WILLIAM EDGAR, ACTING DEPUTY ASSISTANT SECRETARY FOR TRADE AND COMMERCIAL AFFAIRS, DEPARTMENT OF STATE

Mr. EDGAR. Thank you. I would like to make a few oral remarks. First of all, I would like to mention our relationship with the Foreign Agricultural Service. We have enjoyed many, many years of close cooperation with that service, and speaking on behalf of my Department, our attitude toward them is one of very deep admiration.

In my personal experience in Brussels at our Mission to the European Communities and in our embassy in London and working on U.S.-Soviet trade relations, I have worked very closely with our agricultural attachés. I can say that these are people who are extremely well informed, very tough negotiators, and some of the best salesmen for American products that I have ever seen.

Second, I would like to describe briefly what we at the State Department have been doing in the interest of export development since the Foreign Commercial Service came into being in April of 1980.

First of all, we have been managing the commercial function at the 75 posts which remain our responsibility. These are not our major trading partners. However, they do account for some $16 billion worth of our exports. We have developed in cooperation with Commerce and with our geographic bureaus a Commercial Activities Report which we have asked these posts to send in describing what they feel their commercial program should be with recommendations of specific events and activities.

In implementing these programs, we have received extremely good cooperation from the Department of Commerce. They have not taken the attitude that these 75 posts are outside their area of responsibility. They have been giving us very good support in providing promotional materials and helping organize trade missions and trade exhibits in these 75 countries.

Second, we have been working with the FCS, trying to give them as much support as we can in getting them up and running and engaged in all the activities that have been described.

We transferred the 162 positions to the Foreign Commercial Service.

We have been providing Foreign Service officers to the FCS on a transitional basis to fill these positions while the FCS is out recruiting its own people. We were delighted to see that the FCS recruited 40 Foreign Service officers to join their ranks.

We have been helping the Foreign Commercial Service with their training programs, with their performance evaluation programs, with their inspection procedures, and we have worked out an arrangement where we have been able to provide the FCS people overseas with improved communications facilities between Washington and the posts.

Finally, I would just like to mention that we feel that the commercial function shouldn't be seen necessarily in strictly commercial terms that very often we find that businessmen overseas are interested in coming into our embassies and talking with our economic officers about the general economic conditions and prospects of the country, and with our political officers about where the country is going.

As you know, Secretary Haig has sent a cable out to ambassadors urging them to attach very high priority to commercial operations. I think a very important point of this cable was that every element of the mission should be seen as part of this process. We are trying to encourage our economic and political sections to be as responsive as possible to businessmen who would like to talk with them about what is going on in that country.

This is not just a matter of a single cable, as Bob Hormats said yesterday. We are engaged along with Commerce and USTR in briefing ambassadors when they go overseas. At our level we are doing this with economic officers going out to posts. As Bob said, we see this not as a matter of sending out a cable or two, but as a full court press on behalf of export promotion.

Thank you, sir.

Chairman GIBBONS. Thank you.

Mr. Smith?

STATEMENT OF RICHARD A. SMITH, ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, DEPARTMENT OF AGRICULTURE

Mr. SMITH. Mr. Chairman, I have a statement. To save some time, I will just submit it for the record.

Chairman GIBBONS. All right, sir. We will accept it for the record.

Mr. SMITH. I just wanted to thank the chairman for having us at this hearing.

I know you are fully aware agricultural exports are of immense importance to American agriculture. We have had some statistics cited here. One that I like to cite is over half of all of our grains and soybeans are exported now. Without that business, our farmer would have a hard time surviving. We put the greatest importance on this. The President and the Secretary have given the highest priority to our agricultural export program.

We look forward to working also with the Congress in any way we can in carrying out this mission.

We certainly appreciate the support we have gotten from the Congress over the years.

Thank you very much.

[The prepared statement follows:]

STATEMENT OF RICHARD A. SMITH, ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman, we appreciate this opportunity to meet with the Subcommittee—to discuss the export development work of the Foreign Agricultural Service and some current issues in world trade.

Increasingly, the American farmer looks to export customers:

To provide markets for an expanding share of what he produces;

To make possible the most efficient use of his resources;

To maintain his income without undue dependence on U.S. government programs.

We are at the point where U.S. farmers now devote 110 million acres—a third of their harvested cropland—to production for export. Half of all the grains and soybeans they market are sold to foreign customers. About one-fourth of farm income is from export sales.

The most dynamic force in the farm economy is the growth in this overseas business. Since 1970, U.S. agricultural exports have increased in value by almost six times to more than $40 billion. Export volume has more than doubled—to more than 160 million tons. The agricultural trade balance climbed to $23 billion in fiscal 1980—a 20-fold growth in 10 years.

These trends continue in the current year. We expect a substantial increase in farm product exports this year—despite increasing competition from other suppliers and a generally slow world economy.

THE WORLD ECONOMY

The world economy faces gloomy prospects this year, with restrained growth expected for personal consumption expenditures and trade volume. Real economic growth in the developed countries, including the United States, should average about 1 percent, which would be near the 1980 rate. That average masks, however, a deceleration from 2.3 to 1.0 percent in six major developed countries—Canada, France, Italy, Japan, the United Kingdom, and West Germany.

Most of these countries face high inflation and interest rates, large budget deficits, rising energy prices, low levels of capital investment, lagging growth in capital and labor productivity, and high unemployment rates. Most will be fighting inflation with relatively tight monetary policies.

Less growth in real private consumption expenditures is predicted for all major developed countries except the United States, Canada, and Japan. Average inflation in the developed countries (excluding the United States) should fall from the 1980 rate of 11.5 percent to about 9.5. Unemployment rates are projected to rise in all major developed countries this year and in early 1982.

The volume of goods exported by the developed countries as a group is forecast to rise only 2.5 percent, with imports declining slightly. However, trade is expected to be brisker in the second half of the year.

Except for the larger oil exporters, economic conditions in the rest of the world are also depressed this year. Eastern Europe faces difficult economic problems; Poland is particularly dependent on trade credits to finance imports and boost economic growth. Many developing countries are squeezed between low growth in export earnings—partly because of reduced demand by the recession-burdened developed countries—and sharply rising oil and food import bills and debt-service payments. Their need for financial and food aid will increase.

The poor prognosis for growth in trade and personal consumption expenditures abroad may dampen foreign demand for commodities, expecially livestock products, feed grains, soybeans, and cotton, which are sensitive to changes in per capita income. Also, any weakening of demand will be reinforced by the dollar's recent strength against many major foreign currencies. These factors make it more important than ever that U.S. agriculture, trade, and governmental organizations put forward an aggessive marketing posture in the years ahead.

EXPORTS: A HIGH PRIORITY

President Reagan and Secretary Block have made it very clear that agricultural export programs are to have a high priority in this administration. This is evident in their public statements and in the challenges placed before FAS. It is reflected in the fact that the budget proposal for FAS is geared to maintain export program levels in a year when many programs are being reduced, and in the fact that in the same year CCC Export Credit guarantees are being increased by an additional $300 million and a total of $500 million in 1982.

We in FAS feel this responsibility most acutely. We understand that we are expected to do a better job than ever within limited resources. In accomplishing that, we expect to work more closely than ever with the private sector—to make our programs more useful to farmers and traders—and to enlist their help in carrying out our goal of export expansion.

The U.S. Government has a unique role to play in a world where state trading is so common and economic decisions are so often political. At the same time, our system requires in the final analysis that the private sector do the selling. We in government do not carry order books.

Implicit in the present policy is a recognition that government's contribution may be as important for what it doesn't do as for what it does do. The administration takes the view that government should avoid export restraints except in extreme situations and others artificial devices that restrict or allocate markets.

THE ATTITUDE TOWARD BILATERALS

One of the problems is that restriction generates restriction. For example, the embargo of sales to the Soviet Union has made other customers uneasy and created new pressures for bilateral agreements. A customer nation, when it becomes fearful, wants to guarantee its future through a bilateral. And such an agreement, once established, makes others want to follow suit before the total supply is allocated.

Secretary Block is on record many times opposing the proliferation of such agreements. In his view, bilateral agreements generally run counter to the concept of free market world trade and hinder trade growth. An increase in bilateral agreements would make the job of developing new markets more difficult since countries would be understandably reluctant to depend on U.S. supplies that might already be largely committed elsewhere. In addition, potentially limited access to supplies could discourage U.S. businessmen from seeking new markets outside areas covered by agreements.

Secretary Block has indicated there is one exception, possibly two, to this position—and that is where we are dealing with monopolistic economies such as the Soviet Union and perhaps China and Mexico.

A bilateral agreement with the Soviet Union may be needed once the embargo is lifted—because of the way the Russians trade and their potential buying power. China represent a different situation. The Chinese have not disrupted markets the way the Russians have in the past, and their purchasing requirements are not nearly so great. As for Mexico, there are pressures for a supply agreement, and here again there are special factors to be considered. Any agreement with Mexico is likely to be a best-intentions agreement without economic restrictions.

THE NEED FOR BETTER INFORMATION

The primary mission of the Foreign Agricultural Service is to help American farmers and traders increase export sales. FAS is organized to provide three basic services to support export growth. These are to provide agricultural and trade information, to get and maintain market access for U.S. products, and to assist in export sales.

The dynamic growth in agricultural trade and the increasing importance of exports to farm income have made fast, accurate global information on crops and trade increasingly crucial to farmers and traders. The same information is necessary to the Congress and Executive Branch in making farm legislation and policy decisions.

FAS has developed a worldwide information network based on reports from its attaches and counselors covering more than 100 countries. These reports are sent to FAS Washington on both a scheduled and alert basis—about 5,000 reports a year.

In addition, information received by remote sensing (Landsat) and weather and other agricultural data are analyzed, using advanced computer technology.

The global information from those and other sources is processed and analyzed by FAS commodity and trade specialists in Washington for public dissemination.

THE NEED FOR GREATER ACCESS

Secondly, FAS works to provide and maintain access to foreign markets—an effort that must be unrelenting if we are to deal with the protectionist pressures that are all around us. The International Trade Policy staff coordinates and directs the Department's activities in international agreements and negotiations, identifies trade barriers, and negotiates to remove them, coordinating with other U.S. government agencies.

It represented U.S. agricultural interests in the Toyko Round of Multilateral Trade Negotiations (MTN).

When the Trade Agreements Act of 1979 was passed approving the MTN agreements, FAS was assigned the responsibility of monitoring the implementation of the tariff concessions and trading codes that had been negotiated.

THE NEED FOR STRENGTHENING EXPORT PROGRAMS

Given information and market access, the final requirement in successful exporting is to develop the market, and FAS is working to strengthen our several programs.

We now have in our cooperator program some 55 nonprofit agricultural producer and trade groups, organized along commodity lines. These groups stimulate exports of their commodities through technical assistance, trade servicing, trade team exchanges, and direct consumer promotion in foreign markets. The work is supervised by FAS, and funding is shared.

About 40 private companies are now participating in an FAS Export Incentive Program to promote brand name foods overseas.

FAS sponsors food-buyer trade shows and in-store promotions in foreign markets to promote U.S. foods.

We have a computerized Trade Opportunity Referral Service (TORS), which matches foreign buyers with American producers, and a parallel service (Contacts), which does the reverse.

We continue to work with individual state departments of agriculture, and with their four regional export expansion organizations. We are planning, with the state agriculture departments, a major national trade show to bring potential buyers to the United States in 1983.

Eight U.S. agricultural trade offices now provide one-stop service for U.S. exporters and foreign importers overseas. We expect to open three more trade offices by the end of the year.

The Public Law 480 program and the Commodity Credit Corporation (CCC) Export Credit Guarantee Program have been integrated into our market development structurer. Public Law 480, a concessional sales program, is aimed primarily at balance of payment support in the economies of developing counries, many of which have been cash customers for U.S. agricultural products. The CCC export credit guarantees are made available for commerical exports of U.S. farm commodities.

STRENGTHENING GOVERNMENT-INDUSTRY COOPERATION

As we review these activities in light of budget restrictions and limitations on government hiring, we are looking for ways to work more closely and more effectively with the private sector.

For example, the improvement of our information/analysis system requires that we be attuned to the needs of the end users in agriculture and industry. The increasing sophistication of our collection system—better analysis—the speeding up of dissemination—all of this will profit little unless we meet the needs of users.

Similarly, the negotiation of greater market access must be fitted to real marketing needs if it is to be worthwhile. When access problems develop, the private exporter is usually the first to know. He is most directly affected and most interested in how the problem can be resolved. We are working with our cooperator associations and with other private interests to assure a high degree of coordination in the identification and resolution of access problems.

Finally, in all of our market development and credit programs, we are working closely with private exporters, trade associations, as well as our cooperators to strengthen our team approach to export expansion. As I mentioned earlier, the public and private sectors each have particular roles to play in market development. Many issues can only be dealt with on a government-to-government level, while actual selling is the province of the private system. Also we are seeking ways in which farm producers can participate more directly and contribute more directly to export promotion efforts.

RECENT EXAMPLES IN MARKET DEVELOPMENT

There are many recent examples of successful government-industry cooperation.

Until five years ago, there were no identified soybean oil brands on the German market, and no German oil processor was willing to take the lead in marketing an identified brand. In fact, only 32 percent of the consumers in that country had even heard of soybean oil.

By putting up less than $300,000 in seed money, FAS was able to initiate a 3-year promotion in which over $2 million was invested by the American Soybean Association and a leading German oil firm. Now five years later, soybean oil accounts for 50 percent of total fats and oil consumption in Germany, and there are at least 10 identified soy oil brands in that market.

Another example of industry-government cooperation is the improved access for U.S. high quality beef into European and Japanese markets. Before 1980, access for U.S. beef was restricted by high tariffs and token quotas. Grain fed beef was limited mostly to tourist class hotels in Europe and Japan. For the most part, native consumers were unaware of U.S. quality.

Access for this beef (10,000 tons for the EC and up to 30,600 tons for Japan by 1983) was negotiated by the U.S. government. Promotion of this beef is the responsiblity of the U.S. Meat Export Federation, an FAS cooperator. As a result U.S. beef had become well known in Japan, and U.S. beef is increasingly featured in European stores.

There continue to be problems in expanding beef exports to Europe and Japan, but much progress has been made as a result of government-industry cooperation.

Before 1979, the United States had never exported grain sorghum to Yugoslavia. As a result of coordinated activity between the U.S. agricultural attache and the U.S. Feed Grains Council, a $14 million sale was completed that year, and prospects are good for further sales.

Following the 1979 purchase, a Yugoslav technical team came to the United States to study livestock and poultry feeding. Growing out of that is a strong interest among Yugoslavs in using a corn/sorghum blend for livestock and poultry.

In the past two years, nine of our cooperator associations have worked with FAS in opening the Chinese market, which grew from $600 million in 1978 to $1 billion in 1979 to almost $2 billion in 1980.

For example, the American Soybean Association has established market development activities in China for consultation on oil refining, direct uses of soy foods, soybean meal quality control, and the utilization of soybean meal in swine and poultry production. A demonstration in Shanghai of saving male dairy calves by feeding them soy-based milk replacer has also been intitiated.

This undertaking to penetrate and expand the large new market of China is typical of the complementary joint efforts of the Foreign Agricultural Service and market development cooperators. At the government-to-government level, FAS officials, including the Agricultural Counselor stationed in Beijing, established a realtionship which opened the way for the joint FAS/ASA market development activities to get underway. The cooperators follow up to establish joint projects.

Before 1978, the Japanese would not let a significant quantity of U.S. oranges into their country because of opposition from their own growers. With liberalization negotiated in 1978 and 1980, Japan has now become one of the four largest foreign markets for U.S. oranges. By 1983, the Japanese will be taking 83,000 tons of U.S. oranges and increased amounts of orange juice and grapefruit juice. Trade groups worked closely with FAS in the negotiation and in promoting U.S. oranges in the Japanese market.

Mr. Chairman, we in FAS appreciate the forum that you and the subcommittee are providing for a discussion of export issues. It is important that the American people have a better understanding of the need for agricultural exports—and the temendous stake we all have in maintaining a healthy climate for international trade. It is really crucial that there be strong public support for a liberal trade system in a period when protectionist voices are growing louder at home as well as abroad.

Thank you for the opportunity to meet with you.

Chairman GIBBONS. Fine, Mr. Smith.

I notice the Foreign Commercial Service has 175 officers employed overseas, and 507 nationals, 11 secretaries, and 693 total people deployed overseas.

How does that compare with the deployment that you have overseas?

Mr. SMITH. We have approximately 123 employees overseas. Of those, roughly 100 would be professional.

Chairman GIBBONS. Are they concentrated in some areas and not in others?

Mr. SMITH. We currently have about 70 posts around the world.

We tend to concentrate our people where we think the best markets are.

Traditionally, that has been in your more developed countries like Western Europe and Japan, and some of our Far East countries.

But that is starting to change now. We are starting to have to make shifts in personnel as our markets shift around the world.

For example, this year Asia was our largest market for agricultural products for the first time, exceeding Europe as a market.

Chairman GIBBONS. Are all your people engaged in selling operations, or are some of them doing other kinds of work?

Mr. SMITH. We approach the problem in an integrated fashion. We think you have to do three things to do a successful job overseas.

One, you have to have good market information. You have to know what is happening, what your markets are, what the competition is doing, what prices, qualities, and so forth are moving.

So we spend quite a bit of time keeping on top of the market situation around the world for two purposes.

One, to keep our industry and trade apprised of what is happening, and also to keep our own policymaking machinery apprised.

The second effort that we think is extremely important is maintaining access to markets. You have to get into the market in order to be able to sell. Access involves two things. Sometimes opening new markets, many times it is protecting access that you already have.

So we spend quite a bit of time on that overseas.

Third, once you know what your market and what your strategy is, and you have access to it, then we try to go in and sell the products, and this takes many forms.

We have credit programs to assist our exporters.

We get involved sometimes with promotional work. We have what I think is a unique program with our cooperators, over 50 organizations that represent U.S. producers and agribusiness groups in the United States.

We work cooperatively with them. They go into countries and perform all kinds of trade servicing functions. In some cases technical assistance to help develop, for example, a poultry industry that would possibly lead to some increase in our exports of soybeans or feed grains.

We do some actual promotional work. We do trade fairs, this type of thing.

So those are basically our activities. We think they all go together. It is very hard to separate them.

Chairman GIBBONS. Do you operate out of the embassy or where do you operate?

Mr. SMITH. Normally our agricultural attachés are in the embassy. There are a few cases where they are in buildings outside the embassy proper.

We also have 11 trade offices that are separated from the embassies. In some cases they are colocated with our commerce colleagues. In other cases they are in private buildings.

These people concentrate basically on trade servicing and working directly with importers.

Sometimes security aspects of the embassy tend to inhibit people coming into the embassy. That is one of the reasons we have separated them out from the embassy.

Chairman GIBBONS. I guess on a country by country basis it would vary on security.

Mr. SMITH. Yes; that is correct. It would make a difference from country to country.

Chairman GIBBONS. How long have you been doing this and how has your department grown?

Mr. SMITH. Well, actually in the present form it was in 1954 that our program started, although you can trace it back further than that.

In previous years it was mostly an information-gathering type operation.

1954 is when we really went into the current concept of marketing and trade access.

In terms of numbers of people and budget, we are really not that big. We have a total of 850 people in the Foreign Agricultural Service. That has not really changed very much over the years.

Our budget is currently around $65 million. That has increased with inflation and so forth, and also our programs are expanded.

Our agricultural exports 40 years ago were around $500 million. Today they are close to $44 billion. Plus, we contribute quite a bit to the balances of trade.

I think this has been one of the significant things.

Chairman GIBBONS. Do you use the State Department's communication network, or do you have your own?

Mr. SMITH. We have opted from the beginning to tie directly into the whole administrative setup of the State Department—their communications. We also use on a reimbursable basis all of their financial facilities and so forth.

We just felt given our size and numbers, it didn't make sense for us to have our own.

So we do use their facilities, except we do have a Telex system which we can use for nonpolicy or unclassified communications, and we do use this for a lot of the market development side of the work, like trade leads, that type of thing.

Chairman GIBBONS. Do your people have access to all of the supporting facets around an embassy—health and all those?

Mr. SMITH. Absolutely.

Chairman GIBBONS. Any problems, any friction, anything like that?

Mr. SMITH. You always have certain instances, but on the whole I think the relationship is excellent.

We have found, as was indicated in the testimony, Secretary Haig, for example, on his own has sent out a message to all ambassadors indicating the importance of agricultural exports and asking them to cooperate and work with our agricultural attaches and counselors.

I think the support from State has been excellent for us.

Chairman GIBBONS. Do you have a head of a mission in each country, or how are you structurally operating within a country?

Mr. SMITH. Well, we have what used to be called agricultural attachés. Recently, we obtained authority to upgrade some of our posts to the counselor rank. So we either have an agricultural attaché or a counselor who is the top agricultural official at the Embassy.

Depending on the size of the market and our activities, in our larger posts we will have some assistant attachés. Japan is our largest post, and we have one counselor and four assistants working there.

Most of our posts are one-man operations.

We also have staffs of local professionals which are I think a very important part of our operation.

These are generally professionals that we hire locally. Most of them have been educated in the States; many of them with advanced degrees, out of our best land-grant colleges who happen to have come back to their country and worked with us for a number of years.

We don't have any what you would call very large operations. The largest one is Japan, which is our largest market. We have a total there of about 12 people, including secretaries, professionals, and locals.

Chairman GIBBONS. I asked all those questions about that because I wanted to get into our new department, and try to compare the two. I realize comparisons are not really the proper way to judge anything, but I just want to get a feel of this.

I run into your people quite often overseas, Mr. Smith, and have been very impressed with them.

Mr. SMITH. Thank you.

Chairman GIBBONS. Mr. Heginbotham and Mr. Edgar, I know the Foreign Commercial Service is relatively new. I think Congress carved it out of the State Department really because we were worried about the kind of hierarchial rating that commercial officers got in the whole State Department setup, and because we thought perhaps there may be some slight conflict of interest in these policies.

For some reason the State Department just was not getting the kind of support that it needed in the whole operation.

I think people get mad at troubles around the world, and tend to blame them all on the State Department. We try to separate that a little. It is not a reflection upon the State Department. It is just a fact that most of us get mad at the messengers when they deliver the bad news.

That is the problem we had.

So we have a relatively new setup. None of us are sure it is the right thing to do. I recognize, Mr. Edgar, what you said, the trade has a lot of aspects other than just the commercial side.

I am interested in how this operation works.

First of all, I don't—Mr. Morris and Mr. Heginbotham—I don't think we have gotten nearly enough people over there to represent us in the areas that need to be done.

Like you, I don't want to do it all at the government level. I have been trying to find ways to get export trading company legislation enacted, and trying to even give scholarships for young people to go over there and study and work with American business and with the American Government.

Unfortunately, none of these things have been funded at any level.

The scholarship programs and training programs are struggling to get through the appropriations processes now.

I am not sure they are going to survive. The administration has not been supporting them, but they have not been supporting a lot of other things that we thought were useful either.

This is no criticism of the administration. I am very aware of the dollar problems we have in our budget.

But it seems to me that we have got a necessity to expand our export operations. I am not going to jump on you all because I know you are new, and there is a transition going on, but when I compare it, say, with France and other people, I am just shocked.

We either are going to be a heck of a lot better, or they have a lot better people person for person or else we have got an entirely different concept than they have.

Why do we feel that we can do the job with so few people compared to what other countries are deploying around the world?

Mr. HEGINBOTHAM. Mr. Chairman I think it is useful to approach that in an evolutionary way.

I think we have great opportunities to improve on what we are doing presently in really quantum ways.

For example, I cited earlier the formula of the cooperator, which Mr. Smith has also mentioned. I think it is worth the committee noting what that relationship does in terms of effective availability of resources to promote agricultural exports.

Through this cooperator program, if I can speak in praise of the FAS, some 24 of their 55 associations, have agreed to go almost in a joint venture relationship with the Foreign Agricultural Service, and have located, abroad some 120 cooperators. Those are staff people out of the industry who work and are often colocated with the Foreign Agricultural Service and provide support and direct cooperative working relationships.

Now, through that program the FAS has managed in effect almost to double its American staff by the presence of industry cooperators, and has brought about in terms of resources a level of total budget that is approximately triple what we have in the Foreign Commercial Service.

So there is a beautiful illustration, Mr. Chairman, of how, by achieving the kind of working relationship we would like to have with American industry, you can multiply your effective capability to work at promoting exports in that field.

This is a program for which we would like to provide the most sincere form of flattery and imitate to the hilt, because I think it is an excellent illustration of industry and government working together in a very close relationship.

Mention has been made of the telecommunications system of the State Department, which is superb. We have found that by utilizing word processing equipment with a telecommunications capability we can simplify many tasks and liberate our officers to a substantial extent, getting them away from their desks.

We are trying to introduce techniques to greatly reduce the desk time of our officers, and get them out to do the market research, secure the market access, and do the promotional work that Mr. Smith has mentioned; this is an integral part of our operation as well.

I think probably the most serious problem though, Mr. Chairman, that is worth highlighting, also—this is a long answer, but it is an important question: Many of our competitors are able to go out and promote their company's interests in ways which we are very limited at being able to do.

I think the best example of that is the minuscule trade and development program that the United States has. This is a grant feasibility program in which the United States presently has $4 million invested. Our competitors abroad have approximately 20 times that amount of money. It is a very small amount in global terms, but what it does is to permit their officers to engage in very direct types of promotional efforts with their industries.

It helps them to lock in on whole sectors of development that we now find ourselves displaced from by the more effective programs of other countries.

So, in sum, I think for us to multiply our effectiveness, we need probably three things.

We need, first of all, the kind of working relationship that the FAS has with its industry. We need, second, the legislation that you have mentioned on export trading companies because, lacking that, we simply don't have the commercial infrastructure to help us in our business, and, third, we could clearly use some improvements in the kinds of Government programs that we can work with in competing with our very professional and skilled colleagues from other industrial nations.

Chairman **Gibbons**. I know you are just starting up. I know there is a problem staffing these different offices, but I notice in the People's Republic of China you have three people altogether, for a billion population.

In Singapore you have got 10 people for 2.5 million population. In Hong Kong you have 11 people for about 2.5 million. I realize that Singapore and Hong Kong are real commercial areas, and there is lots of business around. I am not saying we have too many there, but how about the People's Republic of China? Why do we have three there?

I could only find one when I was there.

Mr. **Heginbotham**. The Departments of State and Commerce have been working for the better part of a year to work out arrangements by which the FCS would enter into the People's Republic of China. That agreement was reached approximately 4 months ago now. Since that time we have moved as swiftly as possible to put people into China.

We have at present an acting commercial counsellor in Beijing. We have an officer assigned to Shanghai, and we will have a full—a newly recruited commercial counselor with superb credentials who will be arriving in Beijing before the end of the calendar year.

We are moving now with State's cooperation and with the full support of the Ambassador, to increase the number of FCS personnel in China.

As I say, we have evidence of their full support. The difficulties arise out of housing and other very practical limitations, on how many people you can locate in available housing.

By the middle of 1982, I would estimate that we will have approximately six or seven foreign commercial service personnel in China as a whole.

With respect to Hong Kong, we had a total of 10 positions, 8 of which are nationals. We only had two American positions in Hong Kong, and we have subsequently added a third American position to provide additional support for the regional marketing efforts of American firms, and to strengthen our support of commercial activities in southern China.

So we are moving along, I think, at a relatively good speed on China at this point. There is not an overabundance of candidates with expert language qualifications. So it does take a little time to sort this out, but in the meantime, we are staffing with some TDY personnel also.

Chairman **Gibbons**. You have previously 10 percent of all your people in the whole service in Germany.

Mr. **Heginbotham**. That is correct. This situation exists because Germany has more international fairs than any other nation in the world, and a major part of our effort in Germany is to provide support for getting more and more American companies to exhibit at those international fairs in Germany.

As a result, in Germany we have not just a regional—I am sorry—not just a country market staff, but also a regional support base which covers not only all of Europe, but which reaches well beyond to the Mideast.

The second point. I have been concerned that the worldwide distribution of positions that we inherited was not optimal.

As I mentioned earlier, we are now going through a very intensive effort to reconsider and relocate personnel where the needs of the market are greatest.

We are carrying that out in close coordination with the Department of State and with the Embassies and expect to move an increasing number of positions.

We have so far this year moved approximately 17 positions, or have the movement in process through the mode system.

So I won't predict precisely what the number in Germany will be at the end of this exercise. But I think that is one of the places we are definitely looking at the utility of those personnel.

Chairman **Gibbons**. What is your 1982 budget request for your agency in terms of numbers of people and in terms of dollars?

Mr. **Heginbotham**. In terms of the request that is pending on the Hill now, we have provided for an increase to staff the domestic headquarters, and to increase our staffing in China. I believe that is the total.

For this period I am satisfied that we have enough scope for improving our present distribution of positions.

I think we can bring about a substantial improvement in our performance with what is provided in that budget request.

Chairman **Gibbons**. You have 175 officers on board now, 507 nationals, 11 secretaries, a total of 693 people.

What will you have at the end of 1982 if you get your budget request?

Mr. **Heginbotham**. At the end of 1982 we will have approximately the same number of people. The number of 175 may be a little high. I think we will be in that vicinity, but I would like to check that number and give you a formal correction if I am wrong.

Chairman **Gibbons**. There is some disparity in the figures that I see here, but it is roughly 175. We can't do it on that. Only a miracle with us running a trade deficit of—how many billions are we going to run this year—nobody really knows—$12 billion, maybe $20 billion on the commercial side, maybe $30 billion.

I don't know what it is going to be.

It is going to be huge. I realize we cannot do it all through Government employees.

I think you can see what I am thinking. We are just not making the effort.

I understand the problems that the Secretary has got, and OMB has got, and the President has got, but we have a crisis on our hands of major proportions in our balances of trade.

I don't know—we are not meeting the crisis. I look at the drain this balance is going to have on our country. I am surprised that we are not just jumping up and down with this problem. It looks to me like there ought to be White House conferences, there ought to be everything else going on within our Government and everywhere else, and here I am one person in a hearing on Friday afternoon, and nobody seems to give a damn.

Mr. **Heginbotham**. Mr. Chairman, I think without any doubt whatsoever, in terms of staffing and supporting American exports, the one single thing that can be done that you are supporting, that we are supporting, is the passage of that export trading company legislation.

By passing that bill, we will give the private sector an opportunity to begin to catch up with the competition.

I mentioned in earlier testimony that the U.S. exports only two or less than 2 percent of its manufactured exports through trading companies—because of obstacles to the creation of those companies.

The competition is exporting between 35 and 40 percent of its exports through that means.

This means that a tremendous number of people in the private sector in those economies are mobilized to carry out many of the kind of services that we try and provide as a substitute.

So, without Government budget resources, in fact through a means that will produce Government revenues, we have in the export trading company legislation by far the quickest way of addressing the lack of personnel and staffing needed to launch an effective U.S. export program.

Certainly, the administration and you are very much in harmony on that objective.

Chairman **Gibbons**. I don't want to make any promises, and certainly no threats. I am going to have to be a lot more active in calling attention to the fact that we have a major crisis on our hands as far as our exports are concerned, as far as our balances are concerned.

Some of it is an over-valued dollar. Some of it is years and years of neglect. But I don't detect the sense of urgency to get out and solve the problem that I think we need to have.

I find the Members of Congress thrashing around aimlessly as to how to solve the problem, but there is one obvious reason. We just don't have the effort out there that we need.

Now, the effort is not going to solve all the problem, but we just don't have the effort.

I don't know whether it is the fact that we have organized the system wrong, or whether it is in a period of transition, or what, but we are going to have to advertise this problem a lot more.

We, in our inspection trips overseas, when we talked to American business people and foreign nations, we ran into resistance about going to the Embassy. Foreign nationals particularly will tell you that going to the American Embassy has political connotations.

In some countries, they feel like they are being spied on with people standing across the street taking the names of everybody that goes into the Embassy. They don't feel that restraint when they go to someplace else that is away, a storefront or something like that.

Maybe it is psychological, Marine guards and everything else. Are we still operating out of embassies?

Mr. **Heginbotham**. Our response to that problem is as the FAS has indicated, on a case-by-case basis. We have encouraged our senior commercial officers to look actively at this question. In a lot of locations, we are already in separate facilities, and that is particularly true in the Eastern European countries where the problem is most acute in political terms.

But in a number of other locations as well, we either already have separate facilities or are looking actively at relocating.

The reasons may be security. The reasons may be the inconvenience of the Embassy location compared to the commercial part of town. A number of factors enter in.

We are located with the FAS in some locations.

We have just completed talks with the American chambers, and I have asked both the chambers and our personnel to coordinate their space planning, so that wherever there are opportunities to colocate, either individual activities or the entire operations, and when that makes sense, that we do so.

There are budget implications in this area, and we are looking at a number of locations for which we are requesting funds to permit relocation, but there is no uniform solution to this problem.

In some cases it makes more sense and is more advantageous to be in the Embassy. In others, the contrary is true.

Chairman **Gibbons**. Let me talk about China a little while.

In China, the problem of housing both the commercial side and family housing are impossible.

If we have to wait upon the Chinese to provide it or wait for it to appear on the market, it would be a couple of centuries down the road before we get it, I am afraid.

I made suggestions, and I am glad you are here, Mr. Morris, because I think the only thing we can do is fly in prefabricated structures, offices and housing, and that includes everything from water purification to sewage disposal, and just set them up.

We are going to have to somehow get a piece of land to set them up on, and that is complicated enough.

If we have to wait for the Chinese to provide them, for their infrastructure to build them, I don't see how they will ever get there until after the turn of the century, really.

Why can't we do that? There are no roads. You can't bring them in on ships and drag them any place to set them up. There is no housing. Well, the housing of people is vastly overcrowded, and it seems to me it is going to be vastly overcrowded until well past the turn of the century. If you had 100 people, you wouldn't have any place to put them.

Mr. **Morris**. We have recently entered into an agreement with a Chinese individual who is building a major hotel, as you know, in Beijing, so that we will have space there short term for our people.

The Embassy is enlarging their compound, and they have given us additional space when the new compound is available but I have to say quite honestly, what you have suggested is very innovative and something that we had not thought about and I would like to look into that.

Chairman **Gibbons**. We've got a lot of C-5's laying around Japan, and I don't know why we couldn't borrow them and land some prefabricated water purification systems and homes over there.

Of course, we've got to get permission from the Chinese to do all of this and that will not be very easy, but one of the things we need, as I see China, is people away from Beijing.

We visited Shenyang and Dalian and talked to the local officials there, and a lot of their procurement is highly decentralized.

I don't think China is as highly centralized, particularly on a commercial basis, as we sometimes feel that it is, although I must say I don't understand their system.

They have much more power and in the decisionmaking process, the local manufacturers do, than I had imagined.

It is going to be necessary to get commercial people spread throughout China.

We found in Shenyang that there was a lot of commercial operation already going on with the United States in machine tools, and we have no one out there to help the American businessman one way or the other, either purchasing or selling those kinds of things.

The same in Dalian for diesel engines, and powerplant equipment, and yet we found Japanese all over the place.

We found other foreign countries all over the place, not to the extent the Japanese are, but not the American presence. I don't know how we have gotten our trade up as high as we have with China, unless it is all agricultural trade, with the kind of support we have over there.

The trade opportunities are tremendous, but we are going to have to have a lot of American business people on the ground there.

Mr. **Morris**. There was a resurgence of American business people there, and all of a sudden, the Chinese had the retrenchment.

We have lost a good bit of American presence which we are trying to encourage them to go back, because long term, this is a tremendous opportunity, and if we back off now, as they develop their infrastructure, we are going to be losing.

We will have officers in Shenyang and Shanghai, and we already have a commercial officer in Guangzhou, so we are moving in that direction, but not as fast as any of us would like.

I would like to explore the possibility that you mentioned with the prefab housing.

Chairman **Gibbons**. We talked with the Chinese officials about it, I think they understood what we are saying, and I don't find that they are resisting it.

I got the impression that they were anxious to cooperate, because they realize that they have got to move rapidly. Every time you try to build a big building, you've got to dislocate a heck of a lot of people and they have such a tremendous demand for housing themselves, that they have got political problems. So I realize you are going always to run into some bureaucratic problems getting a piece of land.

I think that that is a way we can begin to penetrate that market.

Mr. **Morris**. I would like to pursue that and come back to you after the February visit.

[A letter follows:]

U.S. Department of Commerce,
International Trade Administration,
Washington, D.C., December 31, 1981.

Hon. Sam M. Gibbons,
Chairman, Subcommittee on Trade, Committee on Ways and Means,
House of Representatives, Washington, D.C.

Dear Mr. Chairman: Following up on your concern, expressed during the Subcommittee's oversight hearings on November 2, concerning office space and housing for the Foreign Commercial Service in Beijing, I want to report to you the status of our efforts to alleviate that problem. I have also explored the possibility of erecting prefabricated structures to accommodate our personnel.

On a number of occasions in the past, we have approached the Chinese government to permit us to set up prefabricated buildings. Our requests were turned down. However, we now have well advanced plans for construction of office facilities for the FCS in the new Embassy compound. We are working closely with the Chinese and hope to reach final agreement on the specific design and costs very soon. In the meantime, we are also in the midst of negotiations to secure space in the new Holiday Inn Hotel, which we expect to be available shortly. Consequently, I believe that we are well on the way to resolving our most serious space problems.

I appreciate the Subcommittee's concerns about the effective operation of the Foreign Commercial Service in China, and would be pleased to discuss these matters with you at any time.

Sincerely,

W. H. Morris, Jr.,
Assistant Secretary for Trade Development.

Chairman Gibbons. Let me ask about State Department cooperation and interagency action.

I realize that other witnesses have said that there is an admonishment or encouragement out from the Secretary of State to work and to push all of these things, and I realize there is a little resentment left in the State Department that they no longer have this function.

In addition to the Secretary's cable, how do these Agriculture and Commerce people operate within the State Department?

The Ambassador is sort of the boss over there, in all these countries. Well, how does this really work?

Mr. Edgar. In terms of any kind of residual resentment, that is well behind us. We are trying to do a job here and work with Commerce, and we consider it extremely important.

In terms of how the system works overseas, that tends to vary from post to post, depending on the size of the post, and on the available resources and on the relationships between the various people.

The Ambassador is the boss and the organization at the post is for him to decide.

One element of trade reorganization which Mr. Heginbotham has alluded to was an effort to give the commercial people more scope to do their own thing in posts overseas, and I think that one of the results of trade reorganization is that they are not burdened with duties on the economic side. They can devote all their time and energy to commercial promotion. That is one of the positive results of reorganization.

I can appreciate the value of locating the commercial operations outside the Embassy. I can see places where that is very important for the reasons that you have said. However, I think it is also very important for the economic and commercial and agricultural attachés to work very closely together. I think their work often overlaps. They have a lot of information and advice that they can usefully give to each other. The economic officers can benefit a lot from the experience that the commercial officers are having in a country and vice versa. The commercial function is more clearly defined as a result of trade reorganization, and that is a good thing, but in our view, it is important not to carry that too far and very close cooperation is necessary.

Chairman Gibbons. Let me call attention to a program we ran into in Dalian.

It is an excellent program. There were four U.S. college professors with their families over there teaching management to the Chinese.

We had a very interesting session with those people and their families, and we really appreciate the excellent work they were doing.

We inquired about what other countries were doing, and we found that everybody was doing far more in that area than we are. I am talking about the Japanese, the Germans, and I don't know whether the French had anybody there, but everybody else that is big in trade had lots of people over there trying to teach the Chinese something about marketing, and about management and those kinds of things.

They seemed to be, from what we could determine, widely respected and excellent ambassadors of this country.

Mr. MORRIS. It is operating under the Department of Commerce in our East-West trade area and we are expanding it in fiscal year 1982.

Chairman GIBBONS. Well, good, I am glad to hear that because I think it was very effective from what I could see.

The Chinese seemed to like it. Our own people were getting a lot out of it, and I hope that we can expand that kind of operation into something. It is something the State Department is out to try to chip in on too.

It is an excellent program.

Can you give me some idea about how much we intend to expand that?

Mr. MORRIS. My understanding is that where you had four professors teaching there at the time you were there, that will be doubled in the next, well, in fiscal year 1982.

As you point out, it is a little, a very small amount, but it is a start.

We are really monitoring it the first year to find out how successful it would be and how they would accept us. Some of their people were here about a month ago and we renegotiated for the next year.

Chairman GIBBONS. Do we do that anyplace else in the world except in China?

Mr. MORRIS. No, sir, not to my knowledge.

Chairman GIBBONS. I say to you, Mr. Edgar, that is something that you all ought to think about.

I would encourage you at the top levels to get together and talk about that, because I think that is a program that offers a tremendous amount of opportunity for us on a commercial basis, and on just a goodwill basis.

Mr. EDGAR. I agree with you fully. We will look into it and see the extent to which it can be expanded to other areas.

Chairman GIBBONS. I have more questions but I know it is getting late and I will submit them in writing.

Thank you very much.

[The questions and answers follow:]

Question. What ranks or titles are accorded to FCS personnel? How many: (1) Ministers, (2) Counselors, (3) Secretaries, and (4) Attaches.

Answer. (1) Ministers—0, (2) Counselors—29, (3) Secretaries—42, (4) Attaches—31, and (5) Consuls—17.

Foreign Commercial Service Officers receive the rank of Counselor, Secretary of Embassy or Attache when serving at Embassies. They receive the rank of Consul when serving at constituent posts such as a Consulate or Consulate General.

Question. Many embassies have State Department economic officers with the rank of Minister. Why is Commerce not represented at that rank? The Diplomatic List in Washington has listed many foreign commercial officers with rank of Minister or Minister-Counselor.

Answer. Prior to the Trade Reorganization Act of 1979 and the State-Commerce Memorandum of Understanding, which transferred the commercial function from State to Commerce for the major U.S. export market countries, some very large U.S. Missions were structured in such a way that commercial interests were represented at the highest level by an Economic/Commercial Minister. Since the Reorganization and Memorandum of Understanding, establishing (1) that Senior Commercial Officers (SCO's) report directly to the Ambassador and (2) that SCO's are members of the country team, the highest rank held by any SCO has been Commercial Counselor. At the same time, Senior Economic Officers have retained their rank as Ministers, while dropping the combined Economic/Commercial designation. In the near future, the FCS plans to seek Minister titles for its Senior Commercial Officers in a limited number of countries where U.S. commercial interests are critical and where diplomatic rank often plays a decisive role in the advancement and safeguarding of those interests.

Questions. I notice from my briefing material that in Japan Commerce has 42 employees, only one of which is a secretary. The poor girl must have to work 41 hours a day to handle the work of 41 officers and nationals.

Please explain to me the nature of the FCS work in Japan that justifies their ratio.

My table shows only 11 FCS secretaries worldwide to serve 682 officers and nationals. How can you get the work out with staffs like that?

Answers. We actually have 5 secretaries in Japan working in the Commercial Section. Four are Japanese nationals and one is an American Secretary. The 11 FCS Secretaries listed on the table are all Americans. In addition we have some 80 foreign nationals working as secretaries around the world. They are part of our headcount of 488 Foreign Service Nationals. We think the ratio of officers to Secretaries is satisfactory.

Question. I understand that the Foreign Agricultural Service and the Treasury Attaches abroad have telex systems separate from the State Department's communications system. Can Commerce communicate with its overseas posts directly as Agriculture and Treasury apparently do?

If not, does Commerce consider it a handicap to have to communicate solely through State Department channels?

Answer. Thirty-nine FCS posts abroad have telex systems separate from the State Department's communications system. The posts range in size from some of our largest, such as Tokyo and Bonn, to some of our smallest, such as Quito and Abu Dhabi. Within FCS' limited resources, we hope to meet the needs of six other FCS posts requesting telex installations in fiscal year 1982, and we will continue to examine the need for telexes in the remaining posts. Overall, we do not consider it a handicap to have to communicate through State Department channels, given the nature of the worldwide service which we receive.

Question. Mr. Heginbotham, you listed in your testimony a number of ways in which the FCS helps U.S. business abroad. Could you give us some idea as to your relative priorities in these activities, how much of your limited resources and budget are spent, for example, on trade fairs and other promotion events, as opposed to MTN monitoring and reporting, and advising and developing opportunities for U.S. business directly?

Answer. The FCS in conjunction with all elements of the International Trade Administration is continually reassessing the relative priorities of its various activities designed to assist U.S. business abroad. We have attached a listing of FCS' activities in fiscal years 1981 which shows the percentage of time and monies spent on each activity. The table also shows our projections for fiscal years 1982 and 1983. MTN activities are shown as part of the larger categories of "Non-Trade Promotion Activity." MTN activities, including government tenders, constituted 2.255 percent of FCS activities in fiscal year 1981. We anticipate that this percentage will increase in fiscal years 1982 and 1983.

FCS PORTION OF FOLLOWING TP AREAS

Activity	Fiscal year 1983 budget request		Fiscal year 1982 budget		Fiscal year 1981 budget	
	Cost	Percent of total	Cost	Percent of total	Cost	Percent of total
Commercial intelligence	$10,454,640	24	$8,372,880	24	$6,590,160	24
WTDR	3,484,880	8	2,790,960	8	2,196,720	8
ADS	2,178,050	5	1,744,350	5	1,372,950	5
TOP's and tenders	2,178,050	5	1,744,350	5	1,372,950	5
FTI	435,610	1	348,870	1	274,590	1
Major projects	1,742,440	4	1,395,480	4	1,098,360	4
WITS	435,610	1	348,870	1	274,590	1
Event support	5,227,320	12	4,186,440	12	3,295,080	12
FBP	1,742,440	4	1,395,480	4	1,098,360	4
Trade fairs	1,309,530	3	1,046,610	3	823,770	3
Trade missions	1,309,530	3	1,046,610	3	823,770	3
Other events MR for O/S events OTEXA events	371,220	2	697,740	2	549,180	2
Nonevent market research	871,220	2	697,740	2	549,180	2
Business counseling	8,712,200	20	6,977,400	20	5,491,800	20
Trade promotion assistance to local business community	6,098,540	14	4,884,180	14	3,844,260	14
Planning and support for trade promotion activity	3,484,880	8	2,790,960	8	2,196,720	8
Trade promotion support to other agencies	1,306,830	3	1,046,610	3	823,770	3
Nontrade promotion activity	7,405,370	17	5,930,790	17	4,668,030	17
Total	43,561,000	100	34,887,000	100	27,459,000	100

Chairman GIBBONS. We next go to a panel on trade-related investment.

Well, Mr. Bale, we will lead off with you and you may proceed as you wish.

STATEMENT OF HARVEY E. BALE, JR., ASSISTANT U.S. TRADE REPRESENTATIVE FOR INVESTMENT POLICY

Mr. BALE. Thank you very much, Mr. Chairman.

My name is Harvey Bale. I am Assistant U.S. Trade Representative for Investment Policy. Testifying with me today are Mr. Joseph Dennin to my right, Deputy Assistant Secretary for Finance and International Services, with the Department of Commerce.

To my far left, Mr. John McCarthy, Director of the Office of Investment Affairs, Department of State, and Mr. Frank Vukmanic, Director of the Office of International Investment Policy, Department of the Treasury.

We all thank you for the opportunity to appear before you on this committee, to address the question of U.S. investment policy and its significance for international trade.

I might just say that we have delivered to you copies of our written presentation, and we will perhaps extract and discuss from the paper.

Chairman GIBBONS. You may be assured that your full statement will be in the record, and you may proceed to summarize, as you wish.

Mr. BALE. U.S. investment policy very much has a trade orientation. We see a very strong link between our investment position abroad, which is quite substantial, and trade.

Last year in 1980, there was a total of $213 billion in direct U.S. investment abroad. This figure exceeds our total exports for that year, and according to Commerce Department figures, roughly one-third of our exports abroad are between U.S. companies and affiliates of U.S. companies abroad.

Furthermore, I glean from some of the statistics produced by the Commerce Department, the fact that for every $100 of imports of manufactures from U.S. affiliates abroad, we export approximately $160 worth of manufactures.

Our view is that there is a positive association between our foreign investment abroad, and trade, our exports.

I would like to discuss briefly our overall investment policy, the last summary statement on U.S. policy toward foreign investment was issued in 1977 after an extensive policy review. The statement indicates that it is U.S. policy neither to encourage nor discourage the inflow or outflow of foreign investment.

This statement can be viewed as a noninterventionist, liberal investment policy attitude—which this administration supports. It is in the interests of our country and other countries of the world—especially LDC's—to have capital flowing as freely as possible. The free flow of capital as well as goods, will tend to support the goals of sound economic policy and maximize economic growth at home and abroad.

Unfortunately, this 1977 neutrality statement leaves the impression that the U.S. Government takes a hands-off policy toward international investment barriers. In fact, the administration should not and does not have a neutral or benign-neglect attitude toward foreign investment issues.

The administration is now actively pursuing three related objectives. The first is the liberalization of barriers and reduced distortions to international investment in both developed and developing countries. Reduced obstacles to U.S. investment abroad is likely to enhance U.S. competitiveness and exports.

The second objective is the particular encouragement of a greater role for private foreign investment in the economic development of the less developed countries. Foreign aid alone cannot sustain economic growth in the absence of greater participation by domestic and foreign entrepreneurial capital.

The third is the maintenance of the maximum feasible degree of openness of the U.S. economy to the contribution of foreign direct investment.

We should maintain this general open policy. We do not want to damage the reputation that the United States has for welcoming foreign investment, with its benefits for creating jobs, introducing new techniques and improving the financial vitality of the United States.

We will, of course, be in a stronger position to resist efforts to restrict investment from overseas if we are successful in removing foreign obstacles to U.S. investment abroad.

This non-neutral view toward the removal of obstacles to international investment by the United States characterizes our approach to this issue.

It is because of the strong linkage between trade and investment that the administration has a particular concern about international investment barriers and investment distorting policies. An open international investment environment is essential for an open and expanding network of international trade. Neverthless, while successive rounds of negotiations have substantially reduced tariff barriers and countries have begun to liberalize a number of nontariff barriers, restrictive and trade-distorting investment policies have become an increasing problem for the United States and other investing countries. Because they have not been adequately dealt with, certain trade-distorting investment policies have become more commonly used internationally.

Furthermore, there is a certain urgency in dealing with the problem because, as these policies become more widespread and integrated into the global economic structure, it will be increasingly difficult to gain discipline over their use.

There has been an absence of significant progress in dismantling interventionist foreign investment policies—indeed, in preventing at least until now, the further spread of new forms of intervention.

This country believes that liberal economic policies should generally apply to both international flows of goods and investment.

Many other countries, while accepting the rules of the GATT which constrain the use of restrictive trade policies, intervene heavily in the investment decision process by first, imposing obstacles to the entry of foreign investors into their country; second, discriminating against foreign investors in the administration of tax, subsidy, and import and export licensing policies; and third, frequently linking the permission for entry of foreign investment or the provision of investment incentives to certain "performance requirements."

In a paper recently presented to the member countries of the GATT, the United States listed a number of performance requirements and restrictions placed on foreign investors.

The ones that we are most concerned about in the trade environment are the so-called export performance requirements or import substituting or local content requirements.

In the case of export performance requirements, foreign investors are required to export a minimum volume or percentage of their output, often as a condition for an investment incentive—for example, a tax holiday or cost subsidy.

This practice creates an export subsidy which we believe runs counter to the recently negotiated GATT code on subsidies and countervailing duties.

Local content and import substitution requirements divert purchases of foreign-owned firms away from sometimes preferred foreign suppliers toward local producers.

These local content requirements are the functional equivalent of quotas, which also run counter to the GATT.

A recently published benchmark "Survey of U.S. Direct Investment Abroad, 1977," conducted by the Bureau of Economic Analysis [BEA], questioned 23,641 U.S. nonbank affiliates of nonbank parents about their experiences with foreign government practices of granting investment incentives and levying performance requirements.

The survey found that on average 14 percent of U.S. affiliates overseas were subject to one or more performance requirements.

Chairman GIBBONS. You are talking about export performance requirements?

Mr. BALE. Both types, export performance requirements in which a company is required to export a minimum or import substituting performance requirements in which case an investor is required to sole source locally for some of his parts and components.

Chairman GIBBONS. If that is not an unfair trade practice, I never saw one.

Mr. BALE. Mr. Chairman, we agree with you on that point.

Chairman GIBBONS. What are we going to do about it?

Mr. BALE. Well, we have an effort under way now in the GATT to bring the attention of the GATT member countries to the issue of performance requirements.

The Secretariat of the GATT has recently issued a paper at our request identifying some of the work that is going on in the OECD, the World Bank, and the U.N., on this issue, as well as raising certain questions that we think are appropriate for the GATT, for example, the applicability of the GATT articles to these performance requirements.

Aside from getting the attention of other countries in a multilateral forum such as the GATT, we have held and are holding a number of bilateral consultations with countries which use these performance requirements.

Most of the consultations we have held in the past on this issue have been with our North American trade partners, Canada and Mexico.

We need and are planning to become more aggressive pursuing our liberalization objectives in this area. We think, as I mentioned just now, that the performance requirements, in our view, are in violation of the GATT and we intend to raise this matter in bilateral consultations, both outside and within the GATT context.

Chairman GIBBONS. I am sure we will want to come back to this. I am sorry to interrupt you there. You may proceed.

Mr. BALE. I think in fact your question has taken me to the bottom line of my message, which is that the administration, through the agencies which are presented here today, and in coordination, are working on this issue. The Trade Policy Committee is developing a strategy on how to attack these problems.

Performance requirements are becoming more commonplace. As the Commerce Department study indicates, we have an instance in India where 60 percent of affiliates there are subject to performance requirements. Other developing countries are generally less of a problem, but still a very significant problem.

In some of our developed country partners this is a very serious problem. We point out in our testimony that we are very much concerned about the trend of policy in Canada, which is our largest trade partner, a country with whom we have had extensive trade and investment relationships for many years. We are very much concerned about the trend there.

We have had some bilateral consultations on the so-called foreign investment review agency, which is the embodiment of the investment policy generally in Canada—a policy which has caused U.S. investors a number of problems.

We are now engaged in a major effort to deal with a major nontariff barrier. The recognition of investment barriers as a trade problem has only recently been recognized and dealt with, but I must say, speaking for my colleagues, I think that you have in the administration full attention to the problem of performance requirements and other investment barriers that affect adversely our trading relationship with our trade partners.

[The prepared statement follows:]

STATEMENT OF HARVEY E. BALE, JR., ASSISTANT U.S. TRADE REPRESENTATIVE FOR INVESTMENT POLICY

Mr. Chairman, I am Harvey E. Bale, Jr., Assistant United States Trade Representative for Investment Policy. Testifying with me today are Joseph Dennin, Deputy Assistant Secretary for Finance, Investment and Services, Department of Commerce, John McCarthy, Director of the Office of Investment, Department of State; and Frank Vukmanic, Director of Office of Investment Policy, Department of the Treasury. I thank you and the members of this Committee for giving us the opportunity to address the question of U.S. policy toward foreign direct investment and its significance for international trade.

During the post World War II period there have been three dominant trends in international investment flows. During the early post-war period U.S. capital, including both debt and equity, was used to help rebuild the economies of Western Europe and Japan. U.S. investment in developing countries also played a significant role in the economic growth of many of those countries. The benefits of increased direct investment to host countries have been additional employment; additional capital to expand plant capacity or create new facilities; the facilitation of transfer and application of new technology; and the encouragement of competition.

From the early 1960's through the mid-1970's rapid development of international direct investment both in absolute terms and relative to the growth of trade, domestic investment and GNP. Over the 1960–73 period, the average annual growth rate of the total value of international direct investment from the thirteen largest OECD countries was over 12 percent a year. This figure was approximately one and one-half times the average growth of OECD output, and practically the same as the growth of international trade (14 percent). The U.S. was the principal source of foreign investment, although Europe began to be more active as a source.

U.S. direct investment abroad grew from $11.8 billion at year end 1950 to some $140 billion by the mid-1970's (and $213 billion by year-end 1980). Most of this increase was channelled to the developed countries which, by the mid-1970's, accounted for some 70 percent of the total, compared with less than 50 percent in 1950. Investors have been attracted by the relatively prosperous and stable economies of the developed countries.

The period since the mid-1970's stands in quite sharp contrast with the period which preceded it in a number of important respects.

A slowdown in the real growth of direct investment flows has occured. The average annual growth rate of the total value of outward direct investment from the thirteen largest OECD countries in the period 1974–79 was slightly less than the 1960–73 period (11.9 percent versus 12.6 percent). After discounting for inflation there has been a sharp deceleration in real terms. However, international direct investment has grown more rapidly than domestic investment, suggesting that multinational enterprises may have been better able to adapt to less favorable investment opportunities in the developed nations where they had their traditional operations.

While U.S. direct investment aboard still predominates, our share of total investment flows from OECD countries has fallen. As a percentage of outward direct investment of the thirteen largest OECD countries, the U.S. share has decreased from a peak approximately 60 percent in the mid-1960's to about 35 percent in the late 1970's. West Germany's share of OECD direct investment flows grew from 7.2 percent during the 1961–67 period to 17 percent during the 1974–79 period. Japan's share grew from 2.4 percent to 13 percent, including extensive manufacturing investments in the Pacific Basin, and France's share expanded from 6.9 percent to 7.8 percent.

Recently, there has been a sharpening of differences in the ability of developing nations to attract investment. The growth of international direct investment from the fourteen major OECD countries to the developing countries has increased over the last few years in current and real terms, reversing the generally declining trend of earlier periods. For example, the average annual growth rate of total direct investment during the 1973–78 period was about 19 percent, up to 10 percent from the previous five-year period. But this investment has been concentrated heavily in a few countries, such as the Republic of Korea, Taiwan, Singapore, Hong Kong and Brazil, which have emphasized export-led growth or offered a big protected market. Such investment has played a major role in the rapid growth of manufacturing and export receipts. In contrast to the experience of these countries, domestic and non service sector international direct investment has tended to stagnate in other developing countries, with the exception of the oil producing countries.

U.S. private direct investment has contributed significantly to the economic development of the LDC's. U.S. investment in the LDC's in 1980 reached $53 billion, representing a 174 percent increase over the U.S. investment position in 1970. U.S. investment flows to LDC's have represented approximately 50 percent of the investment by all OECD countries into the LDC's.

Our private direct investment in LDC's represents. However, only 20 percent of our total foreign investment; furthermore, the large majority of the increase in U.S. investment in LDC's since 1970 has been concentrated in relatively few countries—Bermuda, Brazil, Mexico, the Bahamas and Panama. These five countries account for 75 percent of the increase in U.S. investment between 1970 and 1980. Furthermore, much of the increased U.S. investment in these countries is related to financial activities; for example, in; the Bahamas and Bermuda. While it should be expected that special circumstances including the size and growth of the local economy and special incentives should result in some concentration of investment in these countries, there are obviously impediments working against greater U.S. investment in other developing countries. Primarily, it is the current attitude of many LDC governments toward foreign investment, as well as the perceived political risks associated with investing in many of the LDC's.

THE OVERALL U.S. INVESTMENT POLICY

A comment is in order on the official U.S. policy regarding international direct investment. The last summary statement on the U.S. policy toward foreign investment was issued in 1977 after an extensive policy review. This statement indicates that it is U.S. policy neither to encourage nor discourage the inflow or outflow or foreign investment.

This statement can be viewed as a non-interventionist, liberal investment policy attitude—which this Administration supports. It is in the interests of our country and other countries of the world—especially LDC's—to have capital flowing as freely as possible. The free flow of capital as well as goods, will tend to support the goals of sound economic policy and maximize economic growth at home and abroad.

Unfortunately, this 1977 "neutrality" statement leaves the impression that the U.S. Government takes a hands-off policy toward international investment barriers. In fact, the U.S. Government should not and does not have a neutral or benign-neglect attitude toward foreign investment. The Administration is now actively pursuing three related objectives. The first is the liberalization of barriers and reduced distortions to international investment in both developed and developing countries. Reduced obstacles to U.S. investment abroad is likely to enhance U.S. competitiveness and exports. The second is the particular encouragement of a greater role for private foreign investment in the economic development of the less developed countries. Foreign aid cannot sustain economic growth in the absence of greater participation by domestic and foreign entrepreneurial capital. The third is the maintenance of the maximum feasible degree of openness of the United States economy to the contribution of foreign direct investment.

We should maintain this general open policy. We do not want to damage the reputation that the United States has for welcoming foreign investment, with its benefits for creating jobs, introducing new techniques and improving the financial vitality of the United States. We will, of course, be in a stronger position to resist efforts to restrict investment from overseas if we are successful in removing foreign obstacles to U.S. investment wherever possible. This non-neutral view toward the removal of obstacles to international investment by and in the U.S. characterizes our approach to this basic policy.

THE INVESTMENT-TRADE LINK

There is a close relationship between direct investment and trade. We believe that U.S. investment abroad will have a net positive effect on U.S. trade and national as well as international well-being.

Part of the link between U.S. foreign investment and U.S. trade is provided by U.S. affiliates. According to the Commerce Department, in 1977 roughly one-third of all U.S. exports were traded between U.S. companies and affiliates of U.S. companies abroad.

For certain sectors of the U.S. Economy, there is an absolute necessity to invest abroad in order to export. This is most clearly the case in the services sector; for example, insurance, banking, and computer services. Even in the non-service sectors, it is often essential to be able to establish foreign distribution and service centers in order to be able to support sales in overseas markets.

BARRIERS TO INVESTMENT

It is because of the strong linkage between trade and investment that the Administration had a particular concern about international investment barriers and distorting policies. An open international investment environment is essential for an open and expanding network of international trade. Nevertheless. while successive rounds of negotiations have substantially reduced tariff barriers and countries have begun to liberalize a number of non-tariff barriers, restrictive and trade distorting investment policies have become an increasing problem for the United States and other investing countries. Because they have not been adequately dealt with, certain trade-distorting investment policies have become more commonly used internationally. Furthermore, there is a certain urgency in dealing with the problem because, as these policies become more widespread and integrated into the global economic structure, it will be increasingly difficult to gain discipline over their use.

There has been an absence of significant progress in dismantling interventionist foreign investment policies—indeed, in preventing at least until now, the further spread of new forms of intervention. This country believes that liberal economic policies should generally apply to both international flows of goods and investment. Many other countries, while accepting the rules of the GATT which constrain the use of restrictive trade policies, intervene heavily in the investment decision process by (1) imposing obstacles to the entry of foreign investors into their country; (2) discriminating against foreign investors in the administration of tax, subsidy, and import and export licensing policies; and (3) frequently linking the permission for entry of foreign investment or the provision of investment incentives to certain "performance requirements."

TRADE-RELATED PERFORMANCE REQUIREMENTS

In a paper recently presented to the member countries of the GATT, the United States listed a number of performance requirements and restrictions placed on foreign investors. These include:

(1) Export requirements;

(2) Requirements regarding minimum import and local content requirements;

(3) Requirements relating to size (e.g. capital invested or employment levels);

(4) Requirements regarding industrial sectors or specific industries;

(5) Requirements regarding location of industry;

(6) Requirements limiting foreign ownership (or providing for local participation);

(7) Requirements regarding employment of foreign nationals (or the employment of nationals, especially in technical and managerial positions);

(8) Requirements relating to investor financing and access to local capital;

(9) Restrictions on the remittance of earnings and the repatriation of capital; and

(10) Requirements concerning the introduction of new products and new or high-level technology.

Each type of requirement or restriction is of concern to us in individual investment cases; however, the first two—export and import substitution requirements—have a direct impact on U.S. trade.

In the case of export performance requirements, foreign investors are required to export a minimum volume or percentage of their output, often as a condition for an investment incentive—e.g., a tax holiday or cost subsidy. This practice creates an export subsidy which we believe runs counter to the recently-negotiated GATT code on subsidies and countervailing duties.

Local content and import substitution requirements divert purchases of foreign-owned firms away from sometimes preferred foreign suppliers toward local producers. These local content requirements are, as witnesses in previous hearings have argued, the functional equivalent of quotas, which also run counter to the GATT.

A recently published benchmark "Survey of U.S. Direct Investment Abroad, 1977," conducted by the Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce, questioned 23,641 U.S. non-bank affiliates of non-bank parents about their experiences with foreign government practices of granting investment incentives and levying performance requirements. The survey found that on average 14 percent of U.S. affiliates overseas were subject to one or more performance requirements.

Affiliates in the mining industry were most often subject to performance requirements—27 percent on average. Manufacturing affiliates were second with 19 percent. Within this group, affiliates manufacturing transportation equipment were affected as often as those in mining equipment manufacturing—in 27 percent of the cases. These percentages have probably increased since 1977.

The Administration's "Statement on U.S. Trade Policy," issued last July, identifies trade-related incentives and performance requirements as measures which can distort trade as seriously as do tariffs and non-tariff barriers. These are a serious threat to the international trading system because they have not been addressed sufficiently in the GATT. The GATT, meanwhile, is the prime logical institution to deal with this growing trade problem.

We are attempting to initiate a work program in the GATT to address performance requirements. There is a natural reluctance on the part of other countries which use performance requirements to discuss the problems that they present. I am hopeful that at the planned meeting of GATT trade ministers in late 1982 we will see the launching of a multilateral work program to bring discipline to the use of trade-related performance requirements.

Useful work is also going on elsewhere. We have launched an effort among the developed countries in the OECD to extend the national treatment principle and to examine ways that investment incentives, disincentives and investment barriers can be effectively addressed in that institution.

A limitation of the OECD is that the greater number of countries—the LDC's—which impose performance requirements and other disincentives to investment do not participate in the OECD. However, much work needs to be done among developed countries. Furthermore, preparatory information-gathering and analysis can be done in the OECD in preparation for discussions among all countries in other forums.

In the IMF/World Bank Development Committee where there is a participation of both developed and developing countries, a study of the use and effect of investment incentives and disincentives will soon get underway. This study is expected to be completed late in 1982, and will hopefully shed further light on the impact and cost of these policies to developing investment-host countries. It may provide a valuable analytical base for making progress in dealing with incentives and disincentives.

The efforts that I have just described are multilateral in scope, designed to achieve ultimately an international discipline for investment incentives and disincentives through multilateral consultations and negotiations. However, it will take some time before they bear results. In the meantime, we must deal with the adverse consequences of performance requirements and other investment problems. What can we do while we work for general international agreements?

First, we can use the mechanisms of bilateral consultations to put forward our problems with restrictions and burdensome investment policies in individual circumstances. We have used this mechanism; however, we need to become more aggressive in informing our trade and investment partners of the degree of our concern over performance requirements. And where our problems are serious enough, we should consider linking our position in other trade issues. We should seek an overall understanding on investment issues bilaterally with important developed and developing countries. The Bilateral Investment Treaty Program, which the U.S. Government is initiating, is an area where we will attempt to show our concern. The model U.S. treaty contains provisions which would deal with the problem of performance requirements.

Another avenue by which to address performance requirements is to test the applicability of current GATT rules against the trade problems posed by performance requirements. We believe that mandated local content and export performance requirements violate GATT provisions and agreements. We intend to test this belief; if the current rules are inadequate, then we will be in a position to seek to strengthen them.

In connection with attacking performance requirements in the GATT, we must examine the use of U.S. law in regard to this problem. Section 301 permits the President to take action against imports of countries whose policies restrict or burden U.S. commerce. We interpret Section 301 to cover foreign investment restrictions and trade-distorting investment policies.

The Government has a problem, however, in dealing with performance requirements. Our success with actions in the GATT and under Section 301 is, however, constrained by the reluctance of U.S. investors to disclose details of their problems with foreign investment authorities because of their fear of retribution by the host government. Many performance requirements are levied administratively rather than from written rules and regulations. We need the assistance of the private sector in improving our information about the use of these performance requirements.

AN EXAMPLE: CANADIAN INVESTMENT AND ENERGY POLICIES

A number of the issues that I have raised arise in our investment relations with Canada. We have had a large and mutually beneficial trade and investment relationship with Canada for many years. Canada and the United States are each other's largest trade partners. Two-way trade is approaching $90 billion this year. The total investment that has been built up between the two countries now totals $55 billion.

While current figures would indicate a healthy bilateral trade and investment condition, recent trends are disturbing. There is a divergence in the economic philosophies of the Governments of Canada and the United States. Canada's economic policies aim at a greater role for government in the economy. Also, Canada is pursuing a policy of economic nationalism, which is in reaction to the sizeable degree of foreign ownership of Canadian industry.

We have to respect the differences in approach of our neighbors; however, Canadian policies contain elements which are not consistent with Canada's international commitments. Our current major problems rest in the implementation of Canada's Foreign Investment Review Act of 1974 and the National Energy Program, announced last year.

1. Investment Policy: FIRA.—The Foreign Investment Review Agency (FIRA), which implements the 1974 Act, was established to increase Canadian control and ownership of investment in Canada and to ensure benefits for Canadian firms from such investment. While we may disagree with it, we do not challenge either FIRA's existence or its screening of new foreign investment. Nevertheless, we find its administration objectionable.

As a condition for new foreign investment, FIRA signs legally-enforceable performance requirement agreements with foreign investors specifying that firms buy Canadian goods. This is in violation of the provisions of GATT that require equal treatment between imported and domestic products. FIRA may also require firms to export a specific share of their Canadian production, which can distort trade flows. Foreign firms may also be prevented from distributing their products in Canada, which can seriously restrict trade. FIRA also prevents foreign firms from freely selling their assets in Canada to other non-Canadian firms, even though there is no increase in foreign ownership. This can reduce the value of foreign-owned assets in Canada.

2. The NEP—Canada's National Energy Program (NEP) has as its aims: Increasing Canadian ownership and control of the energy industry: achieving Canadian self-sufficiency in energy by 1990, altering the distribution of revenue from energy production; and increasing emphasis on exploitation—especially by Canadians—of territories under the Federal Government's jurisdiction. The major pieces of the NEP implementing legislation are scheduled to be considered during this session of Parliament.

Our concerns about the NEP relate to a number of aspects, including the lack of adequate compensation for Canadian Government shares of leases on Canadian Federal Lands, the lack of national treatment in providing incentive payments for exploration and development activities in Canada and restrictions on export licenses. In connection with my earlier discussion of performance requirements, I want to mention, in particular, another aspect of Canada's NEP. Canada has previously removed objectionable implementing provisions of its NEP which would have favored Canadian suppliers of oil and gas equipment and services. However, the Government of Canada in August established a Committee on Industrial and Regional Benefits (CIRB) as part of a new federal program to ensure that the benefits of major energy industrial projects go to Canadian firms. In light of our experience with FIRA, the CIRB appears to signal that when there are two "competitive bids," energy firms are expected to "buy Canadian." Energy firms who don't select a Canadian supplier will have to justify their selection. We believe that activities of the CIRB would be in violation of the GATT.

The United States has responded to the FIRA and the NEP by holding a number of high-level consultations with the Government of Canada. The President himself has raised our concerns on several occasions. The Canadians so far have indicated that they do not intend to extend NEP-like policies to other sectors; nor do they intend now to make FIRA more restrictive. In fact, it appears that FIRA is undergoing a review. We cannot say at this time, however, that we will like it any more later than we do now.

Work on this issue and bilateral consultations are continuing. Secretary Regan recently visited Ottawa to discuss our concerns. The Trade Policy Committee has been deliberating since the summer as to what our policy and approach to Canada should be. Our approach to Canada will depend on its willingness to live up to its international obligations. We would welcome a return to full cooperation in making progress on a wide range of economic and trade issues.

THE ROLE OF PRIVATE INVESTMENT IN ECONOMIC DEVELOPMENT

Foreign private direct investment can be a powerful impetus to the development process and a major supplement to official development assistance (and other forms of private and public resource transfers) in stimulating growth in developing nations. Moreover, private flows are taking on added importance as the governments of Aid donor countries face serious domestic budget challenges. Altogether, private capital flows—commercial lending and portfolio and direct private investment—account for approximately two-thirds of total financing flows to developing countries.

There appears to be a growing perception by many developing nations that increasing foreign direct investment will be vital to their prosperity in the 1980's, particularly as aid prospects appear less promising. Many developing nations are seeking actively to attract foreign investors. Their success will depend largely on their investment climates and the steps that they take concerning it. As President Reagan noted in his October 15 speech on development issues, improving the climate for private capital flows is critically important as investment is the lifeblood of development. Clear and consistent investment-related laws and regulations, in conformity with the principles of international law, and according most-favored-nation and non-discriminatory treatment of investment, along with other steps in the direction of a more open investment environment, will be determining factors in the decisions of many investors.

The U.S. Government can play a helpful role in facilitating private sector involvement in those developing countries which seek to attract foreign investors. As a first step, we are supporting efforts of individual developing countries to create a more favorable internal climate for foreign and domestic private sector activity. In addition, we are:

Seeking ways to insure U.S. business against risk in these countries through a renewal of OPIC's legislation with a broadening of the scope of its activities;

Working to eliminate USG disincentives to U.S. private sector activities in developing countries (e.g., improved treatment of foreign-sourced personal income, amendment of our Foreign Corrupt Practices Act so as to define better the proscribed conduct);

Supporting pending export trading company legislation;

Increasing AID's private sector orientation;

Improving other USG programs that support the private sector in developing countries;

Increasing the involvement of individual U.S. firms and private business associations in providing management and technical training for developing countries' personnel;

Seeking more effective ways to bring together developing countries' enterprises and U.S. suppliers of appropriate technology; and

Considering proposals for the expansion of trade and development program grants for project feasibility studies and project design.

Further, by maintaining a free and open U.S. economy, we provide a market for nearly half of all developing countries' exports of manufactured goods to industrialized countries.

Another important step involves the negotiation of Bilateral Investment Treaties (BITs) with developing countries desirous of attracting U.S. investors. Such treaties would enhance the attractiveness of investing in those countries by establishing a common frame of reference and commitment, as well as a legal base to deal with the entry and duration of investment; arbitration and prompt, adequate and effective compensation in the event of expropriation; treatment of established investment; repatriation and other transfer of assets; and dispute settlement.

A U.S. draft BIT is now undergoing a final review. We will soon provide the final text to the Congress for review. We will then begin negotiations with Egypt. We hope to launch a series of negotiations with other developing countries desirous of attracting U.S. investors.

We are also seeking to give new vitality to and to broaden the international effort to enhance private sector investment in those developing countries where the environment is conducive to private sector growth. We believe the World Bank can play a highly effective role as a catalyst for increasing international flows of direct investment to developing countries. On a broad basis, its efforts to foster market-oriented policies in developing countries and its support for basic infrastructure help pave the way for profitable private investment. On a project-by-project basis, it can attract additional private capital through co-financing and other formulas that encourage U.S. banks and other investors to be more active in the developing countries. Even if the Bank finances only a part of a project, its participation improves the climate of confidence between foreign investors and the country in which the investment is taking place. Within the Bank, the International Finance Corporation has a particularly important role to play. For the last 25 years, the International Finance Corporation has been working to encourage the growth of productive private investment in developing countries through its direct participation in investment projects. The IFC should receive greater support from both developed and developing countries.

Domestically, the new legislative authority for OPIC will permit it greater freedom to support private investment in middle income developing countries. At the same time, we are considering the possibility of working with other developed and developing countries to establish a multilateral insurance agency, which would protect investors against certain political risks in developing countries. Such an institution could help to facilitate investment in developing countries, and give greater confidence to new investors from countries which do not have their own national insurance agencies.

The Administration has given a high priority to encouraging greater private investment and activity in the nations of the Caribbean whose economic and political development objectives are compatible with our own. We have been designing trade, aid and investment programs to improve the region's investment climate and to assist Caribbean countries in demonstrating private sector involvement. Some of the tools we have been analyzing for the Caribbean, but with numerous potential applications outside the region, include: Bilateral Investment Treaties (BITs) and expanded OPIC insurance and loan programs and other incentives for U.S. investment in the region.

FOREIGN INVESTMENT IN THE UNITED STATES

Foreign investment in the United States, which reached $65 billion last year, has been increasing rapidly.

This investment has had a positive effect on many sections of our economy. It has helped to create jobs, add plant capacity and create new facilities, and brought in advanced technology and management skills. Inward investment flows will assist our economic revitalization efforts.

However, the growth of foreign investment in the United States, coupled with restrictions on and discrimination against U.S. investment in other countries, has generated pressures in the U.S. to control inward investment, or regulate it on a more reciprocal basis. The reaction to Canada's restrictions against foreign investors, particularly in the energy sector, and the spate of new investments sought by Canadian firms in the United States have fed such pressures. There have been calls for prohibition on investment in specific sectors, greater screening of foreign investment, and the establishment of a reciprocity principle in U.S. treatment of investment.

We need to be very cautious about limiting foreign investment because of the benefits from such investment. A secure and stable investment climate is one of the major strengths of our economy and a major source of our prosperity. Actions which raise doubts among potential foreign investors would be harmful to our domestic economic interests.

We must take into account the fact that the U.S. is also a large investor abroad and has been a major force in international trade. United States policies concerning foreign investment in the U.S. have a significant impact on the policies of other countries and U.S. restrictions could invite further restrictions or retaliatory actions from other countries.

We are better served by policies that aim at the elimination of foreign practices that deviate from international norms than by policies of retaliation that could weaken these norms. With this principle in mind, we intend to take steps necessary to protect our rights and interests.

CONCLUSION

On an individual country level there are pressures toward protectionism. When each country is allowed to follow this course, we all end up net losers. For this reason most countries see the need for a multilateral forum whose objective is to reduce government imposed trade barriers.

For most of the developed countries the Kennedy and Tokyo rounds of the MTN have effectively eliminated tariffs as a significant source of protectionism for manufactured goods. The average tariff rate for manufactured products is five percent.

The Tokyo Round also made significant progress in eliminating many of the nontariff barriers to trade. Codes of conduct were established for subsidies and countervailing duties, anti-dumping, government procurement, standards, customs valuation, and licensing.

It appears that countries are increasingly using investment as the means to protect and develop their market. If we and our trading partners are to reap the benefits of our previous efforts in the Kennedy and Tokyo Rounds then we must arrest and push back trade-limiting and distorting investment policies which threaten the future of the open system of world trade.

Chairman **Gibbons**. Do others at the table wish to make statements?

STATEMENT OF JOSEPH F. DENNIN, DEPUTY ASSISTANT SECRETARY FOR FINANCE AND INTERNATIONAL SERVICES, DEPARTMENT OF COMMERCE

Mr. **Dennin**. Mr. Chairman, I have no separate statement. The Office of International Investment, Department of Commerce, participated in the preparation of the statement which Mr. Bale submitted, and from which he has read. We support it fully

I would like to note, however, that the Office of International Investment has prepared a publication entitled "The Use of Investment Incentives and Performance Requirements by Foreign Governments."

This is being publicly released today. I believe copies of it have been sent to your office, Mr. Chairman, and to all the members of the committee.

I have several additional copies here with me today if anybody would like copies.

Chairman **Gibbons**. Could you give some of the highlights for us?

Mr. **Dennin**. I would be happy to mention a few of the highlights.

This was a study, a benchmark survey, conducted on a 1977 basis, involving questions directed at 24,000 U.S. nonbank affiliates of nonbank parents, about their experiences worldwide with foreign government practices of granting investment incentives and compelling the acceptance of certain performance requirements.

In the investment incentive area, among the highlights we found that on average approximately 26 percent of U.S. affiliates overseas had received one or more incentives to invest. An almost equal percentage of U.S. affiliates in developing countries and in developed countries received incentives upon investing.

There was a wide range, however, from country to country.

For example, Ireland, which was the high country on the list for granting incentives, granted one or more incentives to about 70 percent of the U.S. affiliates which were there.

South Korea was second with 53 percent, and from there it went down until you got to the lowest, Hong Kong, which our study showed only granted incentives to about 5 percent of the U.S. affiliates.

Among the highlights we found in the area of performance requirements, the survey showed that on the average 14 percent of U.S. affiliates operating worldwide were subject to one or more performance requirements.

Two percent of the U.S. affiliates reported being subject to minimum export requirements, 3 percent to maximum import levels, 3 percent were required to utilize a minimum amount of inputs locally, and 8 percent were subject to minimum local labor content requirements.

Six percent of U.S. affiliates reported that their U.S. parents had to limit the proportion of equity held in the affiliate.

A much larger percentage, I might note, of U.S. affiliates in developing countries were subject to performance requirements than in the developed countries.

The difference was one of the magnitude of about 30 percent in the developing countries and about 6 percent of the developed countries.

All of South America, for example, except Argentina, subjected at least one-third of U.S. affiliates to these requirements, and as Mr. Bale noted in his testimony, India's percentage was the highest in Asia, and the highest worldwide. Sixty percent of all U.S. affiliates operating in India reported that they were subjected to one or more performance requirements.

Only Hong Kong and Singapore were relatively low at 2 percent and 11 percent respectively, and in the developed countries Portugal and Turkey were the ones that most often imposed performance requirements on U.S. affiliates.

In this case it was 37 percent in both countries.

These are among the highlights found in this study which we have here today.

Chairman GIBBONS. That is 4-year-old data we are talking about?

Mr. DENNIN. Yes, sir. This is based on the latest benchmark survey conducted for 1977 but completed early in 1981 by the Bureau of Economic Analysis. From that, this particular analysis was prepared recently.

Chairman GIBBONS. Are you trying to keep that up on a more current basis?

Mr. DENNIN. We try to keep up on it, but there is a tradeoff between keeping it up on more limited data and going with the compulsory data that we get in the benchmark surveys where people have to give it to us, and it can only be done as massive amounts of information come in, and it takes a period of time to do it.

We are trying to shorten the period of time involved between receipt of data under a benchmark survey and when we can actually start getting it out.

Chairman GIBBONS. Some of that seems kind of low, just from my eyeball observation, like on local content requirements.

Mr. DENNIN. We think it has gone up drastically since then—1977.

Chairman GIBBONS. Yes.

Mr. **Bale**. Mr. Chairman, on that we have asked the Commerce Department to produce material which would show what the incidence of performance requirements would be since 1970.

The data here reflects all U.S. affiliates whenever they were established. Our view is that if you looked at the trend that you would find a higher incidence of performance requirements in later years.

There are some 26,000 affiliates involved here. Of course, many of those were established some time back, before these performance requirements became a tool of economic and investment policy. So I think we will find the higher incidence.

Those numbers are low—if you think of the current period.

Chairman **Gibbons**. How did Mexico rate in all of this?

Mr. **Dennin**. Let me turn to one of the charts here under performance requirements.

Mexico, 41 percent of U.S. affiliates operating in Mexico reporting to us on the basis of this 1977 information were subject to one or more performance requirements.

You don't have to extrapolate very far up from that figure, which is already in the forties, until you can get some appreciation of the magnitude of the problem in Mexico.

Chairman **Gibbons**. Mr. Shannon?

Mr. **Shannon**. Thank you, Mr. Chairman.

I want to thank the panel for their testimony. It was very, very useful.

I represent a district in Massachusetts with a high concentration of electronics and computer producers.

I think their contribution to both our regional and national economies, particularly in the last few years, has been very, very significant.

But their success relies to a great degree on their ability to export.

The ADP telecommunications sector, after agriculture and aerospace, is the leading U.S. exporting group. However, I think, that in the near future this industry is really going to face some tough problems in exporting and overseas investment.

Many nations, including some of our traditional trading partners—France, Mexico, and Canada—are considering policies to restrict U.S. ability to invest within their borders.

These restrictions range from the traditional trade barriers of tariffs and subsidies to newer policies requiring majority domestic ownership and the transfer of U.S. technology.

It is certainly the view of many in the high tech industry that these restrictions are a serious threat. I remember having discussions myself with officials in Brazil about this transfer of technology problem a couple of years ago.

What I would like to know is, whether the administration views the problem to be as severe as I think it is, and what the administration might be doing about it.

Mr. Bale?

Mr. **Bale**. Thank you, Mr. Congressman.

We do view it as a very serious problem. Some of these problems that you mention, which are particularly trade related, we think that we can approach in the context of the international institutions, such as the OECD and the GATT.

Now, to the extent that they are developing country problems, the OECD, of course, is a very limited forum.

In the GATT, we think that the extent to which the obstacle is related to a trade-related requirement that might violate national treatment in the GATT or come under the strictures regarding quantitative restrictions in the GATT, we think we can approach it.

Now, when a country is not a member of the GATT, then we have to use the bilateral approach purely.

In the case of one or two countries that are not members of the GATT, and, of course, Mexico is not a member, and there are some problems on equity participation, and I know that some companies that are in the high technology field are very concerned by the technology transfer that might be carried through with such a policy—the administration intends—can only use a bilateral consultation mechanism to get at the problem.

There is a joint Commission that has been established to discuss United States-Mexican trade issues in particular; that is, jointly chaired by the Commerce Department and the USTR and we would expect that problems such as this can and will come up in that Commission.

Mr. **Shannon**. The Mexican situation, Mr. Bale, I think is particularly pointed as far as the computer industry is concerned. The Mexicans have put very high duties on computers, computer parts, and very strict restrictions on the importing of computers and computer parts, which reminds some people of what they did with the auto industry during the sixties, when they began issuing their decrees.

Has the Commission undertaken or entered into discussions specifically about the computer industry with the Mexicans? Is that on the agenda? When can we expect that to be discussed?

Mr. **Bale**. The Commission is only now being set up. It was established last month, in September, with the visits of Secretary Baldrige and Ambassador Brock to Mexico, and this is an item—and I must add we received from the Digital Corp., a copy of what was a free translation of the new policy in the computer area, and we have not, unfortunately, had sufficient time to digest that, to see how we might bring it up, and what issues we might raise.

I think that you will find that the administation is very much concerned about this problem from several perspectives.

First of all, the investment problem involved—there is an investment barrier.

Second of all, it has trade ramifications that are quite significant. In particular, it is a trade problem in the service sector which the administration is attempting to develop an aggressive policy on.

So it combines, I think, the characteristics of an issue which needs attention because of the service component of it, the trade ramifications of it, and particularly because the high technology sector for the United States is so important for the developing competitiveness of the U.S. economy.

One looks at agriculture, high technology, and capital goods sectors as three leading sectors for future growth of U.S. exports—that we absolutely must address these ownership and investment restrictions that threaten the growth of these markets for U.S. producers.

Mr. **Shannon**. Opening up these markets I think is going to be very important in dealing with our own productivity problem here in the United States. I am very glad to hear that you are going to be addressing this problem specifically with the Mexicans, and that you will be dealing with it in the GATT as well.

Is there anything that we in the Congress should be doing—this is kind of an open-ended question—specifically to address this transfer of technology issue? Let me word it a little bit differently perhaps.

Are there things that we have done here or are thinking about doing here which might make it more difficult for you in the course of the bilateral negotiations or in the GATT to deal effectively with the transfer of technology problem?

Mr. **Bale**. Well, I don't immediately see legislatively particularly what can or should be done. We have to be careful about restricting our activities, whether they be in the form of placing limits on companies' ability to trade or invest or in some cases companies find it advantageous in a world market situation to move some of their technology abroad. We have to be careful about anything that we do in a regulatory sense on anything coming in here, investment or technology. So at the moment to us it does not seem it is appropriate at the time. Because I don't think we have adequately ourselves filled out the process of bilateral consultation in such a way that we have clearly identified a need.

STATEMENT OF JOHN McCARTHY, DIRECTOR, OFFICE OF INVESTMENT AFFAIRS, DEPARTMENT OF STATE

Mr. **McCarthy**. If I may add a remark that is not exactly an answer to your question, sir. There have been in the United Nations as well a series of negotiations. There is a proposed code of conduct on transnational corporations; there is a proposed code of conduct in the transfer of technology itself.

Mr. **Shannon**. At the U.N.?

Mr. **McCarthy**. At the U.N. Those negotiations are still in progress. That on the code on transfer of technology has basically broken down. But the position of the United States has been largely one that you might describe as defensive, in the sense that what we have been trying to do in these negotiations is to preserve the rights of companies and to underscore the obligations of countries toward treatment of companies operating within their borders. With the transfer of technology code negotiation we have been very careful to insure the proper degree of respect for contracts, for instance. It has been largely a defensive kind of operation, trying to make sure that any of the codes that emerge, in fact, are ones that U.S. business can live with and operate under.

Mr. **Shannon**. These restrictions on use of technology, these transfer of technology policies, they have been a growing phenomenon around the world in the last several years, have they not? And the position of the United States is basically to prevent it from spreading further or to deal with the most recalcitrant of our trading partners on this issue?

Mr. McCARTHY. In the general code negotiations our objective is to obtain if at all possible a balanced code, one that would allow the beginning of an internationally agreed set of rules. It is not easy to get.

STATEMENT OF FRANK G. VUKMANIC, DIRECTOR, OFFICE OF INTERNATIONAL INVESTMENT, DEPARTMENT OF THE TREASURY

Mr. VUKMANIC. The complaints you have heard from businesses we have also heard. In many of the bilateral discussions we have had we have indicated to developed and developing countries alike that this is a problem for U.S. business investing abroad. And to the extent that the problem is a serious problem, it could result in a lack of investment. This is particularly important for many of the developing countries. In that regard, we have also initiated consultations recently with the Government of France regarding their investment policies. In France, in the high technology area, there are some fairly severe restrictions. So we have been passing this message along fairly pointedly in our bilateral consultations. And I don't think this message has been completely lost.

Mr. SHANNON. I appreciate your responsiveness on this. I have sensed that there is a great deal of sensitivity within the administration for this particular issue. It certainly is an important issue to my part of the country. And I think to the economy as a whole. I want to thank you and encourage you to continue in all of the discussions that you have mentioned will take place.

Thank you very much, Mr. Chairman.

Chairman GIBBONS. I have a number of questions I will probably submit in writing to you. But let me ask you one question here.

Would each member of the panel describe what your respective responsibilities are on investment policy and negotiations and how you coordinate?

Mr. BALE. Well, our responsibilities in the investment area follow from the reorganization plan of 1979, implemented in January 1980 for, in particular, the trade-related aspects of investment issues. These include performance requirements and similar trade distorting investment policies. We work through the Trade Policy Committee mechanism on this. Members of that committee include the State, Treasury, and Commerce Departments.

We also have responsibility for coordinating most recently our bilateral investment treaty process, which is one of these elements which we hope will be a mechanism to address some of the problems that we are discussing here today. We also coordinate with our Treasury colleagues as members of the Committee on Foreign Investment in the United States, what our inward investment policy ought to be. But our lead on that we take from the Treasury side, with our input and advice. That is a summary of where we stand.

We, of course, have full coordination with other departments on the development of our policy all along here. We think with our office and USDR being just established in June of this year—I might say my job was relatively recently developed, we are in the process of working with other offices and other departments, and it is an area where there is a heck of a lot of work that needs to be done. And I think a lot of people in the administration are anxious to do that work. We are constantly on the phone and in meetings. I see these gentlemen quite frequently—whether it be in the context of the Treasury Department committee or USDR's committee. That is our focus.

Mr. **Dennin**. Mr. Chairman, the Office of International Investment within the Department of Commerce has a responsibility for looking at both inward and outward investment. And with respect to the inward investment, many of the responsibilities it has were given to it by Congress in the preparation of material such as the publication I just read from, the benchmark surveys, most of the analytical work done on tracking investment into this country. The Department of Commerce is a member also of the Committee on Foreign Investment in the United States which Treasury chairs. But the Department of Commerce is the group that provides much of the staff work for the analytical work done by that Committee.

There is, I think, a sense of more to be done in this area than there are people to do it, so there is a frequent sharing of responsibilities. Just in the last week or so, for example, Assistant Secretary Waldmann, for whom I work and who just testified before you, delivered the position of the U.S. Government at the OECD's high-level Executive Committee, in its special session on trade-related incentives and performance requirements, national treatment, investment flows, et cetera. That was done—although the work itself had been largely prepared in the State Department. There was a cooperative effort. When Mr. Rashish was not able to be at this particular session, Mr. Waldmann charged the U.S. delegation. I think that is typical of the type of cooperation we have seen, pretty much across the board.

As a final matter, there are, as you are no doubt aware, two Cabinet Councils that frequently look at matters of investment or business matters—the Cabinet Council on Economic Affairs, which is chaired by the Secretary of the Treasury, and the Cabinet Council on Commerce and Trade, which is chaired by the Secretary of Commerce. Insofar as matters coming up in this area are being looked at within the Cabinet Council on Commerce and Trade—the Commerce Department does the initial staff work and tries to make sure all interested people have an opportunity to participate. And we find the same thing takes place when a similar issue arises in one of the other Cabinet Councils.

Mr. **Vukmanic**. Treasury has a number of offices looking at investment. We look at both the direct and portfolio investments. But I would say from our perspective Mr. Bale's characterization is correct. Most of the work is done on an interagency basis. Most of the work and positions are developed on an interagency consensus. We share responsibility with other agencies in working on trade-related matters through the TPRG-TPC framework. We have direct responsibility for the Committee on Foreign Investment in the United States. But again, even though that committee is chaired by Treasury, it is an interagency framework. We also have responsibility for gathering and disseminating data on portfolio investment, and conduct a benchmark survey on portfolio investments. Treasury also has responsibilty for investments in the securities and banking area.

Generally, we also have an overriding concern with foreign investments because we are concerned about balance of payments and its macroeconomic effects. Our investments abroad at the end of 1980 totaled about $213 billion. The income from those investments coming into the United States was about $37 billion, which represented a fairly sizable chunk. So in summary, those are our responsibilities and our activities.

Mr. **McCarthy**. Mr. Chairman—State Department has a number of specific and also a number of important general interests in the field of investment. Specifically, the State Department leads U.S. negotiating teams in non-trade-related investment negotiations on an international level.

We have already mentioned several times OECD, which in fact adopted an investment declaration in 1976, reviewed it in 1979, and now is again beginning to take a look at that declaration and how it is being applied, and how it is not being applied, and how it might be extended.

Mr. Rashish led a U.S. delegation to a high-level meeting of the OECD a few weeks ago, where in fact we presented a fairly extensive position.

We also are active in other international negotiations, as I mentioned, in the U.N. context, on things like codes of conduct for multinational corporations.

In this capacity, we chair an interagency committee which puts together positions for these negotiations.

Again, specifically, the State Department chairs an interagency Committee on Expropriation, and we in fact have the responsibility in areas of nationalization and compensation—not a growth industry perhaps, but one that continues to cause a number of important problems.

Also in a specific sense, we coordinate the activities of the Overseas Private Investment Corporation with our embassies abroad, and in general take a look at the relationship between investment policy and development policy.

Then each of these issues which arise in the investment area tend automatically by definition to involve the U.S. Government with other governments around the world, bilaterally or multilaterally.

There is therefore an important State Department interest in formulation of policy and in its carrying out by our embassies abroad.

Chairman **Gibbons**. I guess if I were a foreigner and I were writing a book and came over here and said who should I talk to about U.S. international investment policy, I would go away confused.

Who speaks for America as far as international investment policy?

Mr. **Bale**. Well, I think foreigners generally visit all four agencies.

Chairman **Gibbons**. I don't blame them.

Mr. **Bale**. They cover their bases pretty well, and then maybe touch on a few other departments, too, just to be sure.

It is an area where there is multidepartmental interest. And if we, for example, were to be so bold as to say that all investment issues were USTR's issues, we would argue, for example, that all investment leads to trade, and, therefore, everything is trade related.

But as pragmatists, and as relative newcomers in investment policy, we work very closely with our Commerce, Treasury, and State Department colleagues and recognize that there are certain advantages in each of the departments for certain activities.

Now, it may still confuse a foreigner, or even a U.S. citizen who frequently writes to all four departments. But we think that we are in this area, which is a burning problem area, and with our recent responsibilities given in the trade-related area, we are beginning to work out fairly well amongst ourselves the various areas where activities are taken a lead on by either USTR or Treasury, or State or Commerce.

It doesn't solve the optical problem. But we think we have a fairly good working relationship amongst the departments, and there are always questions that arise, and we, like other people, are never without our discussions about the jurisdictional issues.

But, nonetheless, for the importance of the issue we think it is absolutely essential that we speak with one voice. And I think that we very well do.

Chairman GIBBONS. Mr. McCarthy.

Mr. MCCARTHY. Just if I may add an international flavor to that. I have attended half a dozen different meetings in the last year on investment policy. The other governments represented have been represented either by somebody from the equivalent of their State Department or someone from the equivalent of any of the other three agencies here this morning.

I think investment is in fact a very complicated issue that tends to run across a number of areas of clear responsibility, and other governments have the same kind of approach, a fairly collective approach, to how they deal with the issue.

Chairman GIBBONS. Mr. McCarthy, let me ask you a question not directly related to this. On the code of conduct of multinational corporations, what is happening?

Mr. MCCARTHY. In the U.N., we are in the middle of the third set of extended meetings of something called the Intergovernmental Working Group on the Code of Conduct. This group has met now about 14 times, 3 times a year and is in fact drafting a code, paragraph by paragraph, attempting to achieve the kind of balance between the obligations and rights of governments and companies that I mentioned before.

It is a very difficult negotiation. I did participate in the working group sessions last year. We spent endless hours in fact going over the question of what information companies would be required to disclose as a result of this code.

There were a number of different suggestions, I would say. And in the end we were able to produce a set of paragraphs that, unusually for this code, did not have a number of brackets, and in fact contained by and large the same requirements for disclosure that are mentioned in the OECD guidelines on the same subject.

And those guidelines were in fact based largely on SEC requirements for U.S. corporations.

So that after a lot of pain we got a pretty good paragraph on this particular aspect of the code.

I am not necessarily that sanguine about the rest of the code. We are now looking at questions of treatment—things like nationalization and compensation jurisdiction, and the right of contracts.

And we may very well break down. But we are at least negotiating.

My impression, sir, from a good deal of discussion with the private sector in the United States is that although nobody is terribly happy about the length of time that the negotiation is taking or terribly happy about the idea of a code in general, nonetheless a number of observers would concede that the process has been very useful in an educational kind of sense. When the debate began 4 or 5 years ago, people, those in the developing countries at least, were talking about the sins of the multinationals.

They now in fact are beginning to talk about how they can accommodate themselves to the need for foreign investment. I think we have made a good deal of progress.

Chairman GIBBONS. Is this a sort of code that would have to be adopted by the United States?

Mr. MCCARTHY. One of our basic positions is that the code needs to be voluntary.

It would not be a legally binding treaty or anything of that nature and would be adopted by the U.N. General Assembly in the form of a resolution, assuming that we would ever get to the stage of having a code that we can accept.

Chairman GIBBONS. As a practical matter, if other countries adopted it as their basic law, or statutory law, then we are bound by it anyway?

Mr. MCCARTHY. All of the effective provisions of the code that we have agreed to so far make the provisions of the code dependent on national law and regulation which has been another one of our basic positions.

Chairman GIBBONS. Are you sticking to the principle that a business entity doing business in a foreign country would receive the same treatment as the nation did?

Mr. MCCARTHY. That has been our position, sir.

In fact, that was one of the points that we discussed at length last year and were not able to resolve, and we moved past that paragraph with the expectation that we could come back to it toward the end of this year's round of sessions.

The problem was that we, and most of the other OECD countries, supported a statement on national treatment very similar to that accepted in the OECD declaration, namely, there could be exceptions only for reasons of public order or national security. The developing countries in the negotiation also insisted on a phrase which would have spoken about their needs for self-reliant development, something that in the course of the negotiation we might or might not have been able to accept.

The East Europeans insisted on the insertion as well of a clear exclusion based on constitutional needs which basically would have excluded them from coverage in the paragraph and at that stage we stopped the negotiation on that particular point.

Chairman **Gibbons**. I think it is essential that if any kind of code comes out, that it be based upon the premise that there be nondiscriminatory treatment.

Mr. **McCarthy**. We agree with you.

Chairman **Gibbons**. Well, if you wish to add anything, you may do so.

We are going to adjourn now until Monday at 10 a.m.

We will hear Secretary of Commerce Baldrige and Under Secretary of the Treasury Sprinkel and two other panels.

Thank you all very much for coming today. It has been very helpful.

[Whereupon, at 1:07 p.m., the subcommittee was adjourned, to reconvene at 10 a.m., Monday, November 2, 1981.]

U.S. TRADE POLICY

MONDAY, NOVEMBER 2, 1981

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, D.C.

The subcommittee met at 10:10 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

Chairman **Gibbons**. Good morning. Come to order.

This is a continuation of the Trade Subcommittee's oversight hearing on trade policy now and for the future.

This morning, in the fourth day of our session, we have Secretary Baldrige with us. All of us know that Mr. Baldrige is the Secretary of the Department of Commerce.

International trade policy is an important function of the Department of Commerce, as well as it being a very important function of this U.S. Government.

Mr. Secretary, we know that you are back from a recent business trip to the Far East, to Japan, namely, and we welcome you back. We have a great deal of sympathy for the jet lag that you must feel, and we will allow you to proceed in any manner in which you wish.

Your statement and any appendices thereto will be made a part of the record, and you may proceed as you wish, Mr. Secretary.

STATEMENT OF HON. MALCOMB BALDRIGE, SECRETARY OF COMMERCE

Secretary **Baldrige**. Thank you, Mr. Chairman.

I have got a longer statement that I would like to submit for the record, but if I may just orally use a shorter one.

International trade and the improvement of our economy are vital concerns to the Commerce Department. I would like to begin by citing some of the trade challenges of the eighties as we see them and discuss what we are doing to improve U.S. competitiveness and some of the steps we are taking to expand exports.

The U.S. competitive position is being challenged as never before. Developed countries are increasingly moving into high technology goods, such as aircraft, semiconductors and computers, and the less developed countries are moving aggressively into the production and export of low- and medium-technology goods. Meanwhile, the U.S. share of world trade and manufactured goods has declined from 25 percent in 1960 to 18 percent in 1980.

With the accumulated record of merchandise trade deficits totaling over $120 billion since 1975, despite some encouraging growth in U.S. manufactured exports over the past 3 years, the outlook for 1981 and 1982 is for increasing deficits; 1981 is expected to be worse than 1980, and 1982 to be worse than 1981.

We must respond immediately and aggressively to these challenges, or we risk losing our leadership in such areas as high technology goods, just as we have come under severe competitive pressure in steel, automobiles, consumer electronics and a host of other industries. Unless we get our act together, we risk entering into a long-term period of economic decline. The process may be slow, like soil erosion, but the long-term effects on our national security and our international influence could be severe.

The road to recovery lies through creating a domestic economic climate that will encourage greater investment and productivity, and the first step down that road has already been taken by the enactment of the President's economic recovery program.

The second step is to remove the disincentives that are a drag on our productivity and our own exports.

The third step is to expand U.S. exports. This is a high priority of this administration, and a cornerstone of the President's economic recovery program. The Department's actions are spread across a broad front, but they have one principal goal—expanding exports.

We are aggressively monitoring, implementing and enforcing U.S. trade agreement rights and obligations. Unprecedented export opportunities have been created by the MTN agreements, but business and Government must work together to translate those opportunities into exports.

Unfair trade practices cannot be tolerated. We must use the various dispute settlement mechanisms at our disposal where U.S. trading interests are threatened or injured by unfair trade practices.

We are working to improve and expedite delivery of trade information needed to increase U.S. exports.

We have established a comprehensive coal export program and an interagency coal export working group to promote coal exports and remove the impediments to such exports. Coal represents one of the most important dollar export opportunities we have.

We are examining various ways to expand trade with the less developed countries.

We are working to consolidate fully the Foreign Commercial Service, the FCS, into our planning process and to establish a motivated and potential staff. We now have 162 Foreign Commercial Service officers on board, and we are about to implement a professional career development and training program to assist in their integration into the department. The intent of this training program is to give these officers a full series of courses in marketing, sales, commercial and business skills, and management techniques.

We must provide effective and timely administration of the Export Administration Act of 1979, and a consistent and predictable East-West trade policy.

We must put an end to predatory subsidized export financing by certain industrialized countries.

Ambassador Brock and others have already discussed our trade agenda for the eighties, but I would be remiss were I not to reemphasize this administration's support for amendments to the Foreign Corrupt Practices Act and our commitment to the passage of an export trading companies bill.

By amending the FCPA, we will give the U.S. businessman the clarity he needs to proceed confidently in the international market, and at the same time unburden himself of much unnecessary paperwork.

By enacting an export trading companies bill, we will create expanded opportunities for a great number of U.S. businesses which heretofore have not entered the export market. We need these small- and medium-size businesses in the export field as our trading competitors have them, so as to reduce our trade deficit and expand our domestic economic base.

Second, we must address the relationship between trade and investment policies, particularly investment incentives and performance requirements. These policies can have a greater effect than tariffs and nontariff barriers.

Notable among our concerns in this area are the activities of Canada's Foreign Investment Review Agency, FIRA, and the provisions of Canada's national energy policies, NEP.

We have also undertaken a number of bilateral initiatives.

First, the Mexico-United States Joint Commission on Commerce and Trade has been created, and we are working actively together to find solutions to the many serious trade problems between our two countries.

Second, we have established the United States-China Joint Commission on Commerce and Trade. The Commission is intended to strengthen our commercial relations with China and to advance American industry's participation in China's vast development program.

Finally, the continuing imbalance in United States trade with Japan is a source of considerable concern to me and this administration. Our bilateral trade deficit is expected to reach $15 to $16 billion this year, with projections for an even higher deficit in 1982, perhaps $18 to $20 billion.

I have just returned from Japan, where I repeatedly pointed out the political dangers of a large and growing bilateral trade deficit. While emphasizing our continuing commitment to resist protectionist pressures, I left a clear message with all of the five cabinet ministers connected with trade and the Prime Minister, that the Japanese Government should take positive action at the highest government level to promote more open access to Japan's market.

Mr. Chairman, throughout my visit to Tokyo, I repeated this message to government officials and business leaders. Japan urgently needs to develop a consensus that importation of manufactured goods is in its national interest and that laws, regulations and a willing participation of its industry and citizens are required to reflect this consensus.

This message was received with clarity, I can assure you, and there is at least some reason to believe that it will be acted on with dispatch.

I would like to call to your attention a front-page article appearing in the Asahi Evening News this past weekend, which is entitled "Ministerial Council To Be Set Up To Expand Imports."

Under the leadership of Prime Minister Tanaka, the Cabinet has established a recognition that "increasing imports of our manufactured goods would not be successful without the cooperation of other government departments."

The article refers to the fact that I had urged the government to take immediate action on this matter, and of course there is another story on the same front page headlined that I warn Japan of this growing trade imbalance.

With your permission I would like to ask that both stories are entered in the record at this point.

Chairman GIBBONS. Yes, sir, they will.

[The articles follow:]

[From the Asahi Evening News, Oct. 30, 1981]

BALDRIGE WARNS JAPAN OF GROWING TRADE IMBALANCE

U.S. Commerce Secretary Malcolm Baldrige expressed Thursday his "big concern" over the expanding US.-Japan trade imbalance and urged Japan to remove nontariff barriers, according to a spokesman for the Ministry of International Trade and Industry (MITI).

Baldrige also hoped that the Japanese people would change their buy-Japanese attitude and use more imported goods, the MITI spokesman said.

A protectionist trend will emerge not only within the U.S. Congress but also the U.S. Government if Japanese imports continue not to increase, the spokesman quoted Baldrige as telling Minister of International Trade and Industry Rokusuke Tanaka.

"Now is no longer the time for negotiations. Action is necessary," the U.S. Secretary told Tanaka. "If Japan wants to export goods, it must import foreign goods."

Baldrige arrived in Tokyo Wednesday from South Korea for a three-day visit. He met with Tanaka and Finance Minister Michio Watanabe Thursday. The big trade imbalance was the major topic during Baldrige's meeting with the two Japanese ministers.

Baldrige also urged Watanabe that Japan should import more to redress the surging trade imbalance.

In reply, Watanabe said that a possible fall in U.S. interest rates may raise the yen's exchange value, slowing down Japanese exports and lifting imports.

Japan chalked up a $9.2 billion trade surplus before seasonal adjustments in the first nine months of this year, according to Japan's official figures.

The U.S. Department of Commerce announced Wednesday that trade deficit with Japan came to $1.4 billion on a seasonally-adjusted basis in September, bringing the January-September total to $13.2 billion.

[From the Asahi Evening News, Oct. 30, 1981]

MINISTERIAL COUNCIL TO BE SET UP TO EXPAND IMPORTS

The Ministry of International Trade and Industry (MITI) and the Economic Planning Agency (EPA) agreed Thursday to create a council of Cabinet ministers to study ways to expand imports to prevent a worsening of the trade friction with the United States and Western Europe.

The establishment of the ministerial council was proposed by EPA Director-General Toshio Komoto when he met MITI Minister Rokusuke Tanaka. They agreed that a policy of increasing imports of manufactured goods would not be successful without the cooperation of other Government departments, including the Health and Welfare, Transport, and Agriculture, Forestry and Fisheries ministries.

There are indications that the friction with the U.S. and Europe may take a sharp turn for the worse. Yoshihiro Inayama, president of the Federation of Economic Organizations (Keidanren), who recently led a high-level Government-sponsored economic mission to Europe, will shortly meet with Prime Minister Zenko Suzuki to report that Common Market nations are seriously concerned about increasing Japanese exports.

Visiting U.S. Commerce Secretary Malcolm Baldrige has asked the Government to take immediate action on the matter.

Inayama met with Tanaka and Foreign Minister Sunao Sonoda Thursday and reported that European nations are in very serious economic and political trouble, so much so that it is becoming an international political problem. Japan should work out emergency measures to reduce tariff and nontariff barriers and boost imports of European products to help these countries out of the present crisis.

Amending the original projections of fiscal 1981 balance of payments figures in late September, the Government estimated the current-account balance at $7 billion in the black, instead of $6 billion in the red projected originally, but the trade-account surplus with the Common Market nations already rose to $7,950 million during the first nine months of this calendar year, up 26 percent over a year ago, and the surplus with the U.S. also doubled to $9,200 million.

The current-account surplus for the first half of this fiscal year (April-September), after seasonal adjustment, also came to $4,326 million, and a ranking EPA official predicted Thursday that, without some $5 billion in emergency imports, the surplus would exceed $10 billion.

[From the Journal of Commerce, Nov. 2, 1981]

JAPAN'S TRADE SURPLUS WITH UNITED STATES MAY CLIMB TO NEW RECORD HIGH

(By A. E. Cullison)

TOKYO.—Japan's trade surplus with the United States next year probably will climb to between $13 billion and $20 billion for an all-time record high, U.S. Secretary of Commerce Malcolm Baldrige warned at the weekend.

He reminded newsmen gathered in the American Embassy at the end of two days of talks with Prime Minister Zenko Suzuki and other top-level Japanese cabinet ministers that America's trade deficit with Japan has climbed from $8 billion (1979) to $10 billion last year and is likely to exceed $15 billion by the end of December.

The secretary of commerce added that this surplus growth cannot continue from a practical point of view and should be considered by the Japanese as a very serious problem. However, Mr. Baldrige stressed that the trade imbalance should be redressed by expanded U.S. exports to Japan rather than by reduced Japanese exports to the American market.

He told the press that the emergency imports apparently now being considered by the Japanese government do not impress him as the right way to address the problem. The secretary of commerce added that "we need to work out a long-range policy" to correct America's swelling trade deficit with Japan.

Mr. Baldrige charged that despite years of complaints registered by the U.S., the Japanese market still remains closed, either deliberately or unintentionally, and the result is that American firms find it difficult to export to Japan even where U.S. goods are highly competitive.

What is needed, he contended, is a long-range bilateral trade expansion program which does not get so out of balance that it hurts one trading partner or the other. The difficulty with the present U.S.-Japan trade imbalance is that it "could become unmanageable" if the trend continues, Mr. Baldrige said.

Asked to provide specific examples of the barriers faced by American exporters, the commerce secretary complained about Japan's overly rigid testing requirements and unusually stiff standards. High U.S. technology and advanced pharmaceuticals already approved in America and Europe must face two years of testing in Japan, he protested, adding that "during which time Japanese makers can catch up with their own products."

Mr. Baldrige said that he asked Prime Minister Suzuki and other ministers during his visit to take "some reasonably immediate actions" to correct the growing trade imbalance before it gets out of hand.

Taking up possible remedies, the secretary said he suggested the possibilities of Japan importing large volumes of steaming coal. The coal trade potential between the two nations is large, he pointed out, and added that the U.S. will be a very reliable long-term supplier. He also stressed that America's West Coast ports even now are being "fixed up" to handle this coal.

"When one of our large trading partners is seen (in the U.S.) as not providing market access as we give it to them, we feel this is a serious problem," Mr. Baldrige advised. He pointed to an 8 percent unemployment figure for the U.S. and between

8 percent and 9 percent in the Common Market region as factors which Japan must take into consideration.

"I am concerned about the growing wall of protectionism around the world," the secretary told the press. "That is why I expressed (to the Japanese leaders) our government's concern over this issue."

Mr. Baldrige said he recognized that over the past decade or so visiting American government officials have repeatedly filed similar complaints with Japanese leaders without any real effort to open Japan's market resulting, but he said he thought there was now a difference.

In the past it was mostly the U.S. Congress which was concerned about the burgeoning Japanese trade surplus, he said. Now, however, it is the worry of Congress and the American government as well, Mr. Baldrige explained.

Secretary **Baldrige**. In conclusion, Mr. Chairman, while reducing barriers to trade and gaining more access to foreign markets are essential steps to improving the U.S. export performance, these steps are not enough.

One of the reasons for our relatively poor export performance has been insufficient commitment, resources and motivation, in the business sector. We are responding to this situation in three ways.

First, we are encouraging the private sector, particularly our medium and smaller sized companies, to do more.

Second, the State and local governments which are closer to the individual exporter will be encouraged and assisted in their export promotion efforts.

Third, in order to use our resources efficiently, we are directing our program activities to country and product targets where the opportunities and needs are the greatest.

To help us carry these efforts to the business community, the President's Export Council has been reconstituted and was sworn in on October 15.

We will also rely heavily on the industry consultations program jointly administered by Commerce and USTR, and working with the business community through our 500 industry advisers.

Mr. Chairman, I believe that our partnership with industry will allow the United States to become once again a pacesetter in international markets. While our exporters are encountering and will continue to encounter trade barriers and unfair trade practices, for the most part competition continues to be fair and conducted on a commercial basis.

The only way to meet these commercial challenges is directly—better products, better prices, and competitive terms of purchase. While the Government can and will do its part to support the private sector in these activities, we must never lose sight of the fact that Government does not export, business does.

This concludes my statement, Mr. Chairman, and I will be pleased to answer any questions that the committee may have.

[The prepared statement follows:]

STATEMENT OF HON. MALCOLM BALDRIGE, SECRETARY OF COMMERCE

Mr. Chairman and members of the Subcommittee, It is my pleasure to have this opportunity to appear before you to discuss United States trade policy. International trade, and the improvement of our economy, are of vital concern to the Department of Commerce. The Administration's "Statement on U.S. Trade Policy" issued in July and discussed by Ambassador Brock, has my personal support and that of the Department of Commerce.

I will begin by citing some of the trade challenges of the 1980's as I see them. Then I will discuss what we are doing to improve U.S. competitiveness. Finally, I will discuss some of the steps that we are taking to expand U.S. exports.

TRADE CHALLENGES OF 1980'S

The U.S. competitive position is being challenged as never before. The developed countries increasingly are moving into high technology goods such as aircraft, semiconductors and computers. The less developed countries are moving aggressively into the production and export of low and medium technology goods. Meanwhile, the U.S. share of world trade in manufactured goods has declined from 25 percent in 1960 to 18 percent in 1980.

The reasons for this decline are clear:

U.S. productivity growth has lagged behind that of our major competitors for 20 years and productivity growth since 1977 has been close to zero;

Relative to the size of our economy, we save less, invest less and do less basic research and development than our competitors;

Our inflation and interest rates in recent years have been higher than many of our major competitors;

Other countries have been more aggressive in supporting their exporters and promoting their exports; and

Newly industrialized countries have emerged to compete with us.

With this backdrop, it is little wonder that we have accumulated a record string of merchandise trade deficits totalling over $120 billion since 1975. Despite some encouraging growth in U.S. manufactured exports over the past three years, the outlook for 1981 and 1982 is for increasing deficits. 1981 is expected to be worse than 1980, and 1982 to be worse than 1981.

We must respond immediately and aggressively to these challenges or we risk losing our leadership in such areas as high technology goods, just as we have come under severe competitive pressure in steel, automobiles, consumer electronics and a host of other industries. Unless we get our act together, we risk entering into a long-term period of economic decline. Like soil erosion, the process may be slow, but the long-term effects on our national security and our international influence could be severe.

IMPROVING U.S. COMPETITIVENESS

The road to recovery lies through creating a domestic economic climate that will encourage greater investment and productivity. The first step down that road already has been taken by the enactment of the President's Economic Recovery Program.

Accelerated depreciation allowances for modernizing plant and equipment will encourage investment needed to increase productivity.

Accelerated depreciation for new R&D will encourage long-term gains in productivity growth.

Tax cuts will bring increased savings which provide new investment capital.

Government spending cuts will contribute to investment capital by reducing heavy government borrowing that has raised interest rates and crowded out business borrowing.

Reduced government regulations will reverse the trend toward increased nonproductive overhead costs which drain billions from potential investment funds.

Changes in taxation of Americans working abroad will increase management productivity and, therefore, U.S. exports.

Maintenance of a stable monetary policy will substantially reduce inflation.

The second step is to remove the disincentives that are a drag on our productivity and on our exports. We must:

Clarify the Foreign Corrupt Practices Act; enact the Administration's Export Trading Company legislation; and review environmental, safety and other laws and regulations which impose unnecessary burdens on business.

EXPANDING U.S. EXPORTS

The third step is to expand U.S. exports. This is a high priority of this Administration and a cornerstone of the President's Economic Recovery Program. The Department's actions are spread across a broad front, but they have but one principal goal: expanding exports.

We are aggressively monitoring, implementing and enforcing U.S. trade agreement rights and obligations. Unprecedented export opportunities have been created by the MTN Agreements, but business and government must work together to translate those opportunities into exports.

Unfair trade practices cannot be tolerated. We must administer effectively U.S. antidumping and countervailing duty laws, enforce the steel Trigger Price Mechanism, and use the various dispute settlement mechanisms at our disposal where U.S. trading interests are threatened or injured by unfair trade practices.

We are working to consolidate fully the Foreign Commercial Service (FCS) into our planning process, to establish a motivated professional staff and to improve operational effectiveness abroad. These efforts will yield improved service to our business constituents and increased exports.

We are working to improve and expedite delivery of trade imformation needed to increase U.S. exports. Our goal is to provide prompt and convenient access to accurate information on foreign markets, potential customers, trade opportunities, promotional events and sources of exporting assistance.

We have established a comprehensive coal export program and an Interagency Coal Export Working Group to promote coal exports and to remove the impediments to such exports. Coal represents one of the most important export opportunities we have.

We are examining various ways to expand trade with the less developed countries. Trade plays an important role in their development process and their economic growth will create significant new export markets for U.S. products.

The Cabinet Council on Commerce and Trade will shortly begin a comprehensive evaluation of the outlook for our high technology industries because of the increasing evidence that these industries may be operating at an unfair competitive disadvantage globally.

We must provide effective and timely administration of the Export Administration Act of 1979 and a consistent and predictable East-West trade policy. We must not allow the transfer of technology and critical equipment to increase the military or strategic capabilities of a potential adversary. In tightening our own controls, we will work closely with our COCOM partners to strengthen the multilateral system of strategic trade controls. At the same time, we generally will relax export controls on low technology goods which penalize U.S. exporters and fail to deny the Communist countries access to such goods.

We must put an end to predatory subsidized export financing by certain industrialized countries. Progress was made with the agreement recently reached in Paris, but more progress toward eliminating government subsidization of export credits is needed. In order to negotiate from a position of strength, we are exploring, for example, the possibility of having the Export-Import Bank fund the difference between the interest rate on a U.S. commercial bank loan for export financing and the subsidized rate of a competing foreign export credit.

Ambassador Brock and others already have discussed with you our Trade Agenda for the 1980's, so I will highlight only two of these areas. First, international rules must be developed to govern trade in services, as they already govern trade in goods. U.S. firms earned $128 billion from their foreign activities last year. Trade in services is continuing to grow and will be a major component in the growth of the industrialized economies in the 1980's.

Second, we must address the relationship between trade and investment policies, particularly investment incentives and performance requirements. These policies can have a greater effect than tariffs and nontariff barriers and can distort normal trade and investment patterns. We are working in both the GATT and the OECD to assess the impact of such practices and to reduce their use.

Notable among our concerns in this area are the activities of Canada's Foreign Investment Review Agency (FIRA) and the provisions of Canada's National Energy Policy (NEP). These issues are being discussed with the Government of Canada, as are similar issues being discussed bilaterally and multilaterally as they arise.

We also have undertaken a number of bilateral initiatives. First, the Mexico-U.S. Joint Commission on Commerce and Trade has been created. A new spirit has been created. We and our third largest trading partner have many mutual interests. We are working actively together to find creative solutions to the many serious trade problems between our two countries.

Third, we have established the U.S.-China Joint Commission on Commerce and Trade. The Commission represents another new initiative by the Administration, one is intended to strengthen our commercial relations with China and to advance American industries' participation in China's vast development program.

Finally, the continuing imbalance in U.S. trade with Japan is a source of considerable concern to me and to this Administration. Our bilateral trade deficit is expected to reach $15 billion this year, with projections for an even higher deficit in 1982. I have just returned from Japan where I repeatedly pointed out the political dangers of a large and growing bilateral trade deficit. While emphasizing our continuing commitment to resist protectionist pressures, I left a clear message that the Japanese Government must take positive action to promote more open access to Japan's markets.

In addition to putting greater emphasis on promoting U.S. exports to Japan, this Administration is taking concrete steps aimed at ensuring that Japan reduces the formal and informal barriers which limit access to its market:

In September the Executive Council of the Trade Facilitation Committee (TFC) was established to expand the scope and effectiveness of the TFC and to provide a forum for continuing high level consultations between the Commerce Department and MITI. While the TFC will continue to deal with problems of market access on a product-by-product basis, the Council, based on Commerce Department recommendations, will initiate soon a more comprehensive review of sectoral trade barriers in Japan.

We are working closely with USTR and other agencies to prepare for the first meeting of the newly formed U.S.-Japan Trade Subgroup, which will address selected Japanese non-tariff barriers.

We are closely monitoring Japan's adherence to the MTN codes, especially in the areas of procurement by Japan's Nippon Telegraph and Telephone Public Corporation (NTT) and "standards" for such products as automobiles, cosmetics, and food additives.

We also are monitoring Japanese actions in the depressed industries area to ensure that Japan does not resort to trade restrictive measures to assist these industries.

We recently concluded a bilateral arrangement which calls for the United States and Japan to accelerate the staging of their MTN tariff cuts on semiconductors to 4.2 percent, roughly five years ahead of schedule.

In July Minister of International Trade and Industry Tanaka stated his Government's intention to encourage increased imports of manufactured goods. We welcome Minister Tanaka's statement and will continue to work actively with the Japanese authorities to ensure its realization.

CONCLUSION

In conclusion, Mr. Chairman, while reducing barriers to trade and gaining more access to foreign markets are essential steps to improving the U.S. export performance, these steps are not enough. One of the reasons for our relatively poor export performance has been insufficient commitment, resources and motivation in the business sector. We are responding to this situation in three ways:

First, we are encouraging the private sector to do more. Our export assistance programs will focus on those activities that the private sector—and particularly small- and medium-sized firms—may not have the resources to undertake.

Second, State and local governments, which are closer to the individual exporter, will be encouraged and assisted in their export promotion efforts.

Third, in order to use our resources efficiently, we are directing our program activities to country and product targets where the opportunities and needs are greatest.

To help us carry these efforts to the business community, the President's Export Council (PEC) has been reconstituted and was sworn in on October 15. It provides a forum for discussion of current and emerging export expansion issues. The work of the PEC will be supported by various subcommittees and by the 47 District Export Councils, with some 1800 business persons involved in an active work program.

We also will rely heavily on the Industry Consulations Program, jointly administered by Commerce and USTR, in reaching and working with the business community through our 500 industry advisors.

Mr. Chairman, I believe that our partnership with industry will allow the U.S. to become once again a pacesetter in international markets. While our exporters are encountering and will continue to encounter trade barriers and unfair trade practices, for the most part competition continues to be fair and conducted on a commercial basis. The only way to meet these commercial challenges is directly: with better products, better prices, and competitive terms of purchase. While the government can and will do its part to support the private sector in these activities, we must never lose sight of the fact that government does not export—business does.

This concludes my statement, Mr. Chairman. I will be pleased to answer any questions the Committee may have.

Chairman GIBBONS. Mr. Secretary, I can't find anything in your statement that I have any serious disagreement with. I like the general thrust of the statement. Let me ask you something, though, about the administration of it.

I am convinced, of course, that the Government has to cut down on its spending, but of course when we start looking at the specifics of that, we all can find areas in which cutting down on spending is not perhaps the wisest policy.

In the Foreign Commercial Service—this is a service that we are just gearing up—you said we had 160 some officers deployed around the world. How many Foreign Commercial Service officers do you feel it is going to take to adequately man the trade opportunities and open trade opportunities out there for us?

Secretary **Baldrige**. I can't answer that question specifically, Mr. Chairman, because I haven't seen the new system that we have at work long enough yet. I have had a chance to visit several countries where I have seen them at work, and I have been impressed, but the fact is that most of these individuals have not had the professional training that they should have.

We have had well over 1,000 applications for these jobs. I am as impressed with the kind of personnel we are getting as I see anywhere else in the Government. I think with training and leadership, they are going to do an excellent job for us.

With the budget restrictions we have, what we are going to do is give a 6-month correspondence course to the personnel in place, one unit a month that they send back to us and we correct.

We are having seminars around the world for them where they can get together, talk over each other's problems with someone from our department. We are trying to raise the professional level there.

We are trying also to make some moves to strengthen the countries where we can do more and put less emphasis on the countries where it is just inefficient to use that much personnel.

I would be able to answer your question specifically a lot better in 6 months, Mr. Chairman.

Chairman **Gibbons**. I prefaced my remarks by saying it was a new service, and we want to see it in operation. Many of its personnel are transfers from the State Department. As you remember, we transferred it from the State Department because we thought the State Department had higher priorities than commercial services.

We wanted to put it over in the department where we thought the commercial services would receive more attention from the Secretary.

Mr. Secretary, it looks to me like we have, first of all, an inexperienced Foreign Commercial Service, and even though we are the largest trading country in the world, we are going to have to expand and trade a lot more if we expect to offset the deficits that we have from importing.

I don't know how we can do it with the goals that we have for that Foreign Commercial Service. I realize that this country stresses the role of the private sector perhaps to a higher degree than any other of the industrialized nations, but it appears to me that the role of the service and the commitment to it is not adequate to get the job done at any time in the future.

I sat here almost in terror when Friday afternoon I realized that we have very little forces deployed out there, and next year and the year after we are going to run balance of merchandise trade deficits that are horrendous, and then we are going to have the political fallout of that, which always has been reflected in this Congress by attempts to raise barriers selectively, or even across the board, to international commerce, whether it be a particular sector or a particular country.

I just feel that we are not yet moving vigorously enough, Mr. Secretary, in this area. The Foreign Commercial Service is only a part of it, but it is a very important part of it. With the budget restraints that are coming on now, I am very worried about where we are going in the Foreign Commercial Service.

I hope that your silence is not from a lack of views on this, but I realize the frustrations you find, having to carve down budgets all over.

Secretary BALDRIGE. I think if I could address my answer, Mr. Chairman, to some of the things that we could do with what we have to work with. As you know, I support the administration's budget program. I was part of it, and I think that the highest goal we have to work toward now is to get our own industries competitive again or there won't be any use in having a Foreign Commercial Service. So, I have got to say I support that.

When we can loosen up, I would make that one of my top priorities in the department. I also say that, but right now we have a role, if I could speak as a salesman for a minute, of the U.S. Government in exports doing three things. We have got to motivate people to export, we have got to facilitate their ability to do it, and we have got to represent them once they have gotten started.

I think it is sometimes forgotten in the shuffle that on the motivation part, where we have got to get more medium- and small-sized businesses into exporting, as our trading partners do, because they have had to. They have had their backs against the wall and this country hasn't yet.

We have had 4,200 seminars on how to export to the United States, or will have by the end of 1982 from the time we got in here. We are going to have 1,500 of those in cities of 50,000 or less, to encourage companies to look into exporting.

On facilitation, we are working between our SCS people, market identification, credit sources, shipping documentation, and on promotion we have literally some hundreds of promotional events, 250 overseas trade promotion events.

We have literally responded to over 750,000 overseas counseling requests just in the year 1981. Our seminars in the United States have been attended by over 250,000 businessmen, so we are not exactly rolling over and playing dead.

It could be better. It always could be more professional, but I believe we have some very good people there to work with. I really do.

Chairman GIBBONS. What worries me is trying to cover a place like China with three people. Probably 300 would get lost in that country, it is so huge. I don't know how we can accept budget levels in this particular department at the level at which they have been in the past, or even a 12-percent cut.

Now, is the Foreign Commercial Service scheduled for a 12-percent cut?

Secretary **Baldrige**. We are not cutting the number of people, and I don't think we are cutting the budget itself except by a minimum amount. No, we are not cutting the FCS.

Chairman **Gibbons**. Good.

Mr. Frenzel?

Mr. **Frenzel**. Thank you, Mr. Chairman.

Thank you, Mr. Secretary, for your testimony before us.

Like the chairman, I am nervous about FCS. It has taken us a long time to gear it up, and we are most anxious that those people be out in the field doing field kind of work.

We have heard many stories, and we have taken that up with other witnesses, about FCS personnel shuffling papers in embassies or buried on third floors of embassies, and it was our intention in creating this service that those people be actually out on the street, working with American businessmen.

I hope—and as I said before, we have discussed this with other witnesses—that somehow we can purge the diplomacy from those folks who came over to FCS from the FSO Service, and that we can get them on the street. That those who don't have business experience be encouraged to learn something, and that we can somehow separate their presence from embassies and get them into commercial locations, where they will be a part of the business world rather than the diplomatic world.

Is that your intention for this group as well?

Secretary **Baldrige**. I can almost say amen to everything except the last point you made, so let me address that first.

It is really not all bad to have a SCS man in the Embassy. In the first place, the Commerce Department, I think, got the short end of the stick in the negotiations with the State Department on the transfer of this service because we got the people but we did not get enough of the support services that had been allocated to them.

That is water over the dam, although we have addressed part of that, but between having a FCS person in a separate building or having them in the Embassy, sometimes it is a question of cost that we can save that way, but I think more importantly it is a function of the importance of that person now in the Embassy.

I am not really trying to be over optimistic when I say this. They have a greater role to play now—and it is acknowledged—than they did in the past.

I talked to Al Haig earlier on in the administration about the role of the Ambassadors in promoting trade, and he agreed completely, sent out a telegram to all Ambassadors, stating that was one of the most important parts of their job and it would be included in their annual review at the end of the year.

I have had perhaps 18 outgoing Ambassadors come in and call the Secretary of Commerce. I think that has been unheard of because they want to know what they can do about trade.

Now, in the embassies abroad, the Foreign Service chief has much better access to the Ambassadors because of this. They belong on the country team. They are included in the meetings.

The places I have been, like Mexico, Japan, Korea, Romania, Brussels, so far, I see no evidence at the top two or three spots of any disagreements or inabilities to having the FCS have the full backing of the Embassy and be allowed to work in a professional way.

I think there are still some cases down below. People just aren't used to it because of the past practice that maybe some of us will have to take out a two by four to get fixed up, but I really don't think that is the problem that it was before this transfer in this administration.

I can guarantee you that I look on those people as a strong part of our team, and they are going to be backed up by me at the highest level in case of any difficulty, but I am honestly not seeing any at the highest level.

I might add—I don't want to take too long on this point, but I think it is important to all of us—the Foreign Commercial Service officers that have come from the State Department have come not just at their choice, but at our choice.

We have a very professional review panel consisting of people in industry, as well as inside the Government, from the Commerce Department, to review people who want to be Foreign Commerce Service officers.

We do not take all the State Department people. We have had well over 1,000 applications for these 162 jobs, and we are trying to fill the new ones, where we can, with people with some real experience in business in the outside world.

We are having success in so doing. That is not to say that this has shaped up yet, but we are beginning to see the feelings of pride and esprit that we have to develop if this is going to be successful.

I don't mean it is going to be done overnight, but I think by the time our tenure is up, you are going to see an entirely different feeling in that outfit.

Mr. **Frenzel**. I thank you for those statements. I don't mean to say that these people cannot be very helpful within the Embassies. Obviously they have to report to somebody. I think the FAS has been a good example of American salesmanship abroad in cooperation with the Embassies.

I am delighted to hear of your progress with Secretary Haig and the fact that the Ambassadors are coming to see you. I will be far more impressed if they are still coming to see you 6 months from now when they come back from their various trips returning to State. If they are still coming to see you, I will feel a lot better about the program.

I guess what I had reference to is in some countries, particularly where we have trade problems, the Embassy is not the place where the foreign national comes to complain about some practice of his own government, which he would like to call to our attention.

Sometimes the workplace in the commercial area is an advantage even if it is just a storefront. At any rate, I am delighted with your attitude about the Service, and I know that with your personal encouragement, it will be moving along well.

Mr. Secretary, we are going to talk about licensing later in the day with Secretary Brady, and I will have some specific comment then, but I did want to say as long as you were here that in some of the countries we visit, particularly the nonmarket economies of Eastern Europe and China, there is no greater complaint by American businessmen than the licensing program under which they are operating, and the greatest complaint is uncertainty and delays in completing applications dealt with.

I know that Larry will have some things to talk with us about, and I don't want to cramp his act, but I did want you to know that that is a major complaint. As a matter of fact, it has been some disappointment to me that we haven't speeded up that process. From a departmental standpoint, is this a matter of priority with you to see that we do accelerate the decisionmaking process?

Secretary **Baldrige**. Congressman, can I gently disagree with you?

Mr. **Frenzel**. Sure. You can even do it vigorously.

Secretary **Baldrige**. Well, I will do it vigorously. It is not right that we haven't speeded up that process. That was one of the first things I took on when I came here. I called Larry Brady in with Lionel Olmer and said here is what we are going to do. We have about 75,000 export licenses to go through a year, applications. We were 2,200 behind—that was about the height—when we took over in January and February.

I explicitly said that we should have that down to as close to zero as we can practically—I mean, you will never get to exactly zero—by October 30. It is now down to 38 cases behind, that is all, from 2,200.

So I think Assistant Secretary Brady, his Department, along with a lot of others, have done an awful lot of work, put in a lot of overtime on that and stirred a lot of pots to get it done.

One of the first things we did on the Cabinet Council of Commerce and Trade was take up East-West trade controls, not the policy part of it as much as the implementation, because our businessmen were confused, our trading partners were confused, and that helped to smoke out a lot of the interagency disagreements that have been holding this up.

So, by a combination of overtime on our part in our Department, by a combination of the cooperation of the Department of Defense by—at our request—moving people, technical experts they had all through the country into Washington to help us, and by them putting in some overtime and by some clarification of the actual policy on those controls and in the intragency group, which I won't say we resurrected, but we made it work since we have been in office, we were able to get those down from 2,200 to 38 cases, and I don't think we can do much better than that.

Mr. **Frenzel**. I thank you, and I will take another look at the complaints that I have been receiving because it is hard to argue with a record of improvement, such as you have just indicated. I will take it up a little later.

Mr. Chairman, I have overrun my time.

Chairman **Gibbons**. Mr. Brodhead.

Mr. **Brodhead**. Thank you, Mr. Chairman.

Mr. Secretary, I am most interested in the problems of the auto industry, and I was severely critical of the last administration for what I felt was their lack of attention to the trade problems and other problems of the auto industry. Frankly, I think that the record of this administration is somewhat better, but it is not really what I would like it to be.

Now, there are a number of problems. Perhaps the best illustration of them would be a letter that I just received from a constituent who is involved in the sale of ball bearings. He is trying to sell to the Japanese industry. He says:

> They are buying U.S. parts but only those parts they can't get in Japan. In the case of our tapered bearings which we manufacture, they have three suppliers in Japan who they say are close and very good and regardless of price they prefer to deal with the Japanese source.

Complaint No. 1 is that the Japanese really aren't very much interested in dealing with American suppliers.

The second complaint, which he makes in the same letter, is that: "the Post Office Department has just let a contract for a huge number of mail trucks," and these trucks will contain Japanese bearings. This sort of crystallizes. These aren't the only such instances, as you know, where the Japanese seem to be dragging their feet in terms of reducing barriers to American products.

It is very difficult for us to get into Japan, and at the same time our market is open. We are about the only country in the world with a truly open market for automobiles, and automotive products, and supplies, and yet we find our Government really not doing very much to insist on reciprocal treatment for our products. And I want to reiterate I am not talking about this administration, it is even more true, I think, of the last administration. But our Government is not doing enough to see that at least in its own purchasing that these concerns are given regard. How do you respond to that?

Secretary **Baldrige**. I think you are right. Now, the way I view this problem, after having spent 3 days in Japan last week, is as follows. I delivered just the message you brought up, to Foreign Minister Sonoda, Minister Tanaka, Finance Minister Michio Watanabe, Prime Minister Suzuki, and Minister Amioka, the Fishing-Agriculture Minister.

We see in Japan, despite what they say, a much less open market system than we have. We see specifically beside the items you mentioned, that in the areas where we are competitive—I mean really competitive—for one reason or another, that we are getting shut out, and let's just look at it in this context.

If you take the raw materials, and I don't want to call them low end of the scale, but from a high-technology viewpoint some of them might be considered, but raw materials or semiprocessed materials, here we have a lower price than they do, and certainly the same quality, petrochemical feedstocks, agricultural materials, soda ash, we can land soda ash in Japan for less than $200 a ton, and they pay almost $300 a ton for it; phosphate fertilizers.

So at the raw material end we get shut out of there through one reason or another. Now, there are many different reasons. Some of them are just industry buying practices like the one you mentioned. But we lost a chance to export where we are definitely lower priced.

At the higher end of the high-technology scale, when you get into computer software, data processing services, items like message switching for electronic mail, the whole new global information services area, high-technology medical equipment, pharmaceuticals—just let me pick those last two. High-technology medical equipment we lead the world in. It is the standard. It has been proven safe by all of our standards and many other places throughout the world.

In Japan, they will take our high-technology medical equipment and test it for their own standards for 2 years, and it is no coincidence at the end of that 2 years the Japanese segment of that industry has usually been able to catch up on the technology of the new product or whatever it is, so that once again we are shut out. We don't have the headstart.

Pharmaceuticals the same way, 2 years of testing in some cases while they are developing the same thing. So this covers the spectrum, and in the middle, where we are not competitive perhaps on some items, that is what the Japanese say. We are not trying hard enough. We don't spend enough time at it. Our quality or our price is wrong. That is why you are not exporting to us. But within the area we can, we get shut out.

Mr. **Brodhead**. Yes; I don't know whether this man is correct or not, but if he is correct, what he is saying is that they are capable of shipping ball bearings to Japan from Atlanta, and they can offer a lower price than this large Japanese auto company can get from firms right there in Japan, but yet the U.S. firm can't even bid. But by the same token the U.S. Government is buying products containing a significant level of foreign content.

Your Department now has the responsibility for implementing and coordinating the Reagan auto program, as I understand it. It has been switched to your Department from the Department of Transportation. I would urge you, Mr. Secretary, to take a look at two things: To first of all take a look at the health of the auto industry. I think that it is really hard for many Americans to believe that this giant industry is in the severe difficulty that it is in, but they are going to lose, as you know, in the current quarter over $1 billion at the same time when everyone agrees what they have to do is down size their cars and employ new technology, such as robotics. Everyone agrees that this is what they have to do. But I don't know how anyone can expect them to do this when they are losing $1 billion a quarter. That is one thing to consider.

While the administration has taken some steps to assist the auto industry, and I am pleased with the steps that have been taken, I don't think you are doing anywhere far enough. I don't sense that there is the understanding within the administration of how deep and how severe the problem is.

The second thing that I think you need to look at is in those few areas where the American auto industry is competitive in the world market, the degree to which they are discriminated against and shut out of those markets by things like local content requirements, prohibitive tariffs, and quotas.

To a degree, there is an incentive for them to get parts from overseas, but now they are being forced to do that, for example, by Mexico and Brazil, and a whole list of other countries. If one traces where parts are being produced today, a tremendous number are coming from these countries which have local content requirements and export requirements, that is, where it is illegal to import into those countries any more than one exports from there.

We are sitting here with an open market and we are giving up 25 to 30 percent of our market to these countries, and we really have no effective restrictions. If one compares, for example, what one has to do to bring a Japanese car into the United States, the paperwork and testing requirements, with what one has to do to bring an American car into Japan, the price is practically doubled, and there is a stack of paper this high with respect to each car. Yet we have, I think, in an idealistic sense, a sensible and a reasonable policy. We have a truly open market, but we are not being responded to that way. And it seems to me that our Government really ought to be a lot more aggressive.

We should go in one of two directions: Either we are going to have a truly open market in automobile parts and supplies, or every country is going to protect its industry. Now we have the worst of both worlds: We have an open market in the United States and every other country is protecting its domestic industry. The problem with respect to suppliers is even greater than it is for the producers of the finished product.

That is very often, very frankly, we are not all that competitive in our finished product. It is too big, but we certainly are competitive in a whole range of parts and supplies that go into cars, and we are being shut out of those markets.

As I think you are aware, in terms of American jobs, that is a bigger factor than the costs of assembly. There are three jobs as suppliers for every job with one of the companies that manufactures cars.

I apologize to you for giving you a lecture. I think if you will understand that my district is in the city of Detroit in the State of Michigan, you will understand the concern I have about this, and again I want to say I am pleased with the initial steps that this administration has taken. However, I think you need to deepen—I don't know about you personally but I think this administration needs to deepen—its understanding of the problem, and I think it needs to be a lot more aggressive in pursuing solutions, and I certainly think that you will find me and the other members of this committee most cooperative with you in that effort.

Secretary **BALDRIGE**. Mr. Congressman, I think the administration's position is that we do not want to erect tariff barriers for imports into this country. What we want is for other countries to open up their markets the same way we are opening ours up, so there will be fair competition worldwide.

Just mentioning Japan once more, that is the message I definitely gave. It is not just a question of Congress being interested. It is a question of the administration being interested, and if we have open markets and Japan doesn't, there is going to be a collision coming somewhere down the road, that is very clear.

In a lot of the other countries that you mentioned, our automobile industry does not have the problem of market access but rather they must get back on a competitive track, and until then, it is going to be difficult. Until they get small cars, they just can't export large ones. We are going to have some troubles. The local content that you mentioned is something we are continually trying to negotiate on. This is a difficult program for us, because some of the developing countries have equally severe problems in their businesses. But local content beyond a certain point is just not the way to handle those problems, so I have to agree with you on that point.

The automobile industry is really suffering in its ability to come back because of our domestic economy. It is difficult for them to make the capital investments that they planned. If they do, and I think in most cases they will be able to, we will see a competitive industry again. But the fact is we just weren't competitive for awhile. We can't solve all those problems for them as a government, but we can open up markets, as we should, to make sure we get the same equal opportunity that other countries have in coming here.

Mr. **Brodhead**. If I might just briefly, Mr. Chairman, I thank you for that statement, Mr. Secretary. But I think that what I urge you to do is to, in your capacity as coordinating the administration's program in this regard, take a look at the problem facing the industry. That is, what is it that they have to spend in order to become competitive? Then ask yourself, in the face of the prevailing interest rates, and in the face of their current profit and loss statements, is it reasonable to expect that they are going to be able to come up with that money?

I don't know that you can answer that question in the affirmative. I don't know that you can definitely answer it in the negative. It is very difficult. The path is not clear for Ford and Chrysler at least, maybe General Motors, but it isn't clear for Ford and Chrysler. It seems to me that they are going to be able to come up with the money that they need.

If you look at their financial statements, you have got to ask where are they going to get the money?

Secretary **Baldrige**. They are going to have to come up with reasonable prices that are competitive worldwide, and part of that, aside from the raw material cost, is certainly the cost of labor. We have got real problems compared to the rest of the world in that area.

I think the cost to make a Japanese car now, and you can argue about whether it is an innate labor advantage of $600 or $1,000—it is hard to prove which one, means we have to see some cooperation between all companies in their wage negotiations. I don't mean between the companies themselves but between the companies and the unions in their wage structures if that problem is ever going to get solved. I think that is as plain as anything. That is one of the problems.

Another problem, of course, is the way the economy is running now, and the ability to generate cash flow. But there is no question that our industry has to be competitive if we are going to export. We can't achieve this by erecting import barriers on cars. That would start off a chain worldwide on a bunch of other things. I don't think that is what you were suggesting.

Mr. **Brodhead**. No; I guess what I am suggesting is that the administration, I think, needs to do some realistic thinking about what needs to be done in order to get this industry back on its feet, and not just assume that it is going to happen, and the other thing, getting back to what I was first talking about, what I am suggesting to you is that in addition to the carrot you ought to think about using the stick. That is, if it is in fact true.

And you know this is just an allegation in a letter received by a Congressman at this point from my constituent that his company in fact has a lower price on ball bearings and they can't bid on the contract. If that is the case, then it would seem to me that it would be the job of the administration to say: "OK, if that is what you are going to do, then we are not buying any Japanese bearings."

We may say this is going to be our policy 3 months from now or something like that, not that we want that to be the outcome. I don't want more and more restrictions all the time, but what I am suggesting to you is we are being played for suckers here.

They are closing up their markets to us and we are not doing anything about it. I think they will respond to a strong stand on the part of the administration, and I am not criticizing, I want to make it very clear. I think even less was done in the last administration. I think you are beginning to do some things like this in this administration, but I think you are not doing anywhere enough and I just want to urge you to do more of this.

Secretary **Baldrige**. I would like to. I wish you would send me a copy of that letter, because one of the reasons for my going to Japan was to let them know the seriousness of just the kind of problems you are talking about, and ask for the highest level of cooperation at the highest level of the Japanese Government to solve this through the ability of two of the committee meetings that we are going to have with the Japanese in December.

One is the newly formed United States-Japan Trade Subgroup of our subcabinet consultation. USTR will be chairing the U.S. interagency delegation to the first meeting of the group. The other is the Trade Facilitation Committee, between MITI and the U.S. Commerce Department. In the latter committee we are taking up specific cases like the one you mentioned on ball bearings. We have a whole list of these cases to go through, and we also hope to be considering sectoral issues. We are covering a broad range of trade problems, and I would like to have the specifics of that problem that you just mentioned too, because we will take it up in December.

Mr. **Brodhead**. Good. I will be in contact with my constituent and ask him to write it up, and I will have it forwarded to you. I thank you for your attention to it.

Thank you, Mr. Chairman.

Chairman **Gibbons**. Thank you, sir. Mr. Schulze.

Mr. **Schulze**. Thank you, Mr. Chairman.

Mr. Secretary, I would like to thank you for your testimony thus far. I wonder, Mr. Secretary, if you would take a minute or two to address the steel situation. I am sure you are aware of the traumatic increase in imports, as well as the dumping cases. I am one who strongly believes in vigorous enforcement. I think that you agree with that, and I would just like to have your views on the current situation and where we are going and what we could do about it.

Secretary **Baldrige**. We have taken a strong stand on that area. I think the steel companies would also make the same statement. We initiated in June antidumping investigations on some steel products from Japan, Korea, and Yugoslavia. We are monitoring surges now in some carbon steel products. We have seen—and this has received a great deal of publicity, but not the same degree of understanding. We have seen a surge in imports, particularly in the month of August.

I think to put that in perspective, Mr. Congressman, the imports until August, with the exception of semifinished shapes, and oil country tubing, we are actually somewhat below what they were last year, and last year was a very depressed year for imports into the United States. The reason I made those exceptions is that we cannot make enough oil country tubing because of the increase in drilling going on.

We are building new plants now but a lot of that importing is done by U.S. steel companies in order to take care of their customers, and hold their potential future customers. Semifinished shapes are coming in from Canada mostly, because some of the steel companies don't want to open up old open hearths. Those are in their self-interest, and they would say that. It is the other imports that have been bothering them.

They went up in August, and there were clearly for the first time, for the first time in August, a great many below TPM price imports, possibly from the European countries. I have had several talks with the European Communities, Vice President Davignon, who is responsible for that as well as with the American steel industry. We have seen in September a diminution of that. Imports are down 25 percent in September, 21 percent maybe in September from August.

If you took the first 9 months including September, and left out the semifinished shapes and oil country tubing, imports are up 2 percent.

Now, that does not mean that we can look on that lightly, because the TPM prices were violated on a very heavy scale in August, and to some extent still in September. We are willing, ready to self-initiate dumping and countervailing duty cases against the countries that came in below TPM, as soon as the American steel industry tells us that they can show proof of injury. There is no use in putting in a case unless you can prove injury, as you know.

They know our feeling on that. That has been a steady, constant feeling, and to the best of my knowledge, they have no complaints about the way this administration has handled this particular problem.

A lot of people seem to think that the TPM is just an automatic penalty mechanism where if something comes in below TPM you can immediately slap a countervailing duty on or slap a dumping case on, and you can't. The TPM is a monitoring system that indicates when the system is in trouble. Then you have to investigate, and if you think you can prove injury, then you can go ahead with the cases, and as soon as the steel industry tells us they can, we will self-initiate, and that may be very quickly. That may be at the end of this month, but that is up to them, and I meet with them next week on that.

Mr. SCHULZE. I would, quite frankly, hope that that would happen. I think, as you referred earlier to the mule and the 2 by 4, I think you can talk to our ambassadors. I think we need to use that 2 by 4.

Secretary **Baldrige**. I didn't mean the ambassadors, I meant some of the staff down here. Please, don't get me in trouble with the ambassadors.

Mr. **Schulze**. My concern in this area, and I am sure yours also, is that many of our domestic steel producers have made plans for capital expansion and expenditures in the billions of dollars, and I understand that they are now reconsidering a lot of these programs. I would hope that you would be as vigorous in enforcement as it is absolutely possible to do, and even lean over backwards in using that 2 by 4.

Secretary **Baldrige**. I will guarantee you we will, Mr. Congressman. The steel industry knows that too.

I have told them that. The TPM is not just a U.S. Government regulation kind of a thing. We have no vested interest in keeping the TPM. I mean, it is not a matter of national interest in that sense as a unilateral policy. It was put in because the urban communities, the Japanese and the American industry all wanted this as a vehicle that would work, and as soon as any one of the three don't want it, it is going to fall. My opinion is they all still do want it, and there is a chance to stop this below TPM stuff so that the American industry is satisfied. But if not, we will just go ahead and let it blow.

Mr. **Frenzel**. Will the gentleman yield?

Mr. **Schulze**. I will be happy to yield to the gentleman.

Mr. **Frenzel**. I am inclined to agree with Congressman Schulze. I would be happier if we took some of these cases and prosecuted them to the fullest extent, rather than simply warned our trading partners from time to time and say, hey, ease up, and then they ease up a little bit.

I think if our country has confidence in our antidumping and countervailing laws, we have got to make them now and then when everybody in the world knows that dumping does take place in international commerce. We do it ourselves, and so I hope if you get a case you will prosecute it vigorously, because those of us who are the strongest believers in free trade are also the strongest believers in making the laws that govern free trade work, and applying them so that our trading partners know we are not afraid to make them work.

Secretary **Baldrige**. Yes, sir. I am on record with the steel industry since last February. As soon as they tell us they can prove injury, we will self-initiate, no doubt about it.

Mr. **Schulze**. I might even go a little further, Mr. Secretary, and recommend that you keep your eyes open whether it is in steel or in some other area. I think it is time to see that we use a 2 by 4 somewhere so that our trading partners know that we are going to vigorously enforce the laws which are on the books.

Thank you very much. I yield back the balance of my time.

Chairman **Gibbons**. Mr. Hance.

Mr. **Hance**. Mr. Secretary, thank you very much for being here. In your discussion with the Japanese and the FEC, you talked about the need to open their markets, but did you have any specific discussions concerning agricultural commodities?

Secretary **Baldrige**. I mentioned them but I didn't get into the specifics because Secretary Block had just been over there 2 weeks before, and I will guarantee you he went into specifics. They heard that message.

I talked more about industrial services area, but the overall, whether it was agricultural services or manufactured goods, that this was a problem, our growing trade imbalance that had been around the $8 billion area in 1979, $10 billion in 1980, $15 to $16 billion in 1981, $18 to $20 billion next year, that that was something that needed the attention of the Japanese Government at the highest level. Frankly, in my opinion, even if we could remove all formal trade barriers, there would still be the significant problem of informal barriers to foreign goods. For instance, there would still be a cultural loyalty built up in that island country since the recovery period after World War II, where it is indeed viewed by their industry as patriotic to buy Japanese. And we have all kinds of industrial associations to contend with, even if all the barriers were removed.

That is why I was trying to get the point across that we need the Japanese Government's help on this, for their own sake, because if that trend of imbalance continues, we will be heading for trouble in our bilateral relations with them.

Mr. **Hance**. Mr. Secretary, a farmer in Texas told me about an idea he had on trade, and I told him I would bring this up with the administration. I couldn't answer his question exactly. It is a simple question and seems to be a fairly good idea. He said that we should examine the tariffs which Japan places on United States beef, wheat, and other agricultural commodities, and calculate what percentage this tariff is of the total price of the product. The United States should then place a similar proportional tariff on automobiles, televisions, and radios coming in from Japan. His theory was that if this percentage was high, then the Japanese would certainly drop the tariffs on agricultural commodities.

I told him I would pass this idea along. Do you have any response to this proposal?

Secretary **Baldrige**. Every nation looks on their agricultural sector as a different specific example. Japan, frankly, feels that it is an island, they are not self-sufficient in food. They used to be, and they are not anymore. They feel it is one of their primary goals to protect that part of their economy.

There is no way the Japanese farmer is going to produce beef, citrus, rice, and so forth, as inexpensively as we can and ship it over there. But they don't want to see their farming sector totally eliminated.

Now, if we took the same view throughout our entire industrial sector, we would see a return to high trade barriers that in our opinion would move right around the world. It would hurt the American farmer more, because as tariffs were raised around the world there would be many places where he would not be able to export.

Our farm export sector now is a tremendous sector. The percentage of farms or the percentage of land that is used in agricultural exports is a very large one. I don't remember exactly what it is, but it is somewhere around 30 percent, I think, and we feel that would start off a kind of a worldwide trade war that could hurt the farmer a lot more than it could help him on just the one problem with Japan.

Mr. **Hance**. Do you think, then, that the Japanese, rather than lowering any of their agricultural import tariffs, would just keep them high and quit selling as many automobiles and televisions and radios here?

Secretary **Baldrige**. It is less a question of tariffs in the agricultural sector, and more an issue of quotas. They just won't let you ship more than a specified amount of beef annually. You just can't ship anymore, never mind what the tariff is. Their beef, as you know, is $30 a pound.

That farmer down in Texas, with a 40-percent tariff barrier, is still price competitive. It is the actual import quota, used to save Japanese farmers, that is the barrier. But in the meantime our farmers have freedom to ship to so many other countries that I think we would be shooting ourselves in the foot by beginning some kind of trade war over this issue. There are just some inequities that you have to put up with, because Japan wants to keep its farm sector going.

We are trying and talking and talking and I think we will have some success, but it is going to be limited success, in opening up the beef and citrus markets. I don't think it is going to be outstanding by any means.

Mr. **Hance**. Thank you very much. I have no other questions.

Chairman **Gibbons**. Mr. Secretary, I am worried about the self-initiated cases. When we self-initiate a case, we are acting as both judge and jury—excuse me, both judge and prosecutor. And I wonder why do the steel companies really need us to self-initiate the case? Aren't they capable of initiating a case if they have one?

Secretary **Baldrige**. Yes. The jury in this case has to affect the ITC, I guess you could put it in that sense as to whether there was an injury.

Chairman **Gibbons**. I certainly want the industry to see prompt and proper justice, but I don't know that industry must depend upon us to initiate its cases. I can see us initiating a case where a small person has no Washington staff and has no Washington lawyers and perhaps doesn't even have an economist on the staff. But I would imagine that a steel company, at least most of the companies that I have come in contact with, are thoroughly capable of initiating their own cases.

I don't know why we have to go out and solicit them to do it. I think it puts us as a government in a rather untenable position. We in effect are either saying we don't know what we are talking about, and I am sure that is not the case, or that we have already made up our mind. I would think that the public perception of what was happening would be better if the steel companies were told, well, if you have got a case, certainly we are here to listen to it and to give you prompt and honest treatment of your evidence. But I don't know whether it is good public policy to go out and drum up controversies where you have got to be the judge in effect as far as a decision is concerned.

Secretary **Baldrige**. Do you mean good international public policy or domestic public policy?

Chairman GIBBONS. Well, it wouldn't be public policy with me, to be real blunt. I don't know why the steel companies aren't capable of doing their own legal work and their own economic work.

Secretary BALDRIGE. Well, they are.

Chairman GIBBONS. Why do we have to go out then and dig up business and say we are going to self-initiate a case if you tell us you can prove injury? That looks like, to me, you have already made up your mind.

Secretary BALDRIGE. No, sir. I hold no brief about the Commerce Department doing it instead of the steel industry or in lieu of——

Chairman GIBBONS. I am saying I do. I object to the Commerce Department bringing a case for the steel industry. I think the steel industry is perfectly capable of bringing its own case. I want you to know it is against my personal public policy. I don't think the Commerce Department ought to be going out for a perfectly capable American industry initiating a case. Now I look with disfavor on it.

I have got some poor little company down there maybe picking pecans or something like that. Maybe that is a different question. But one of the largest industries in America which has, by and large, been profitable, I think it can bring its own case if it has got a case.

Secretary BALDRIGE. I don't have that as a fixed point of our policy.

Chairman GIBBONS. Good; we are going to get along better now, I can see that.

Secretary BALDRIGE. I want to reserve—before we start getting along too good, Mr. Chairman—I want to reserve my judgment on that, because you are right to bring that question up, but it is a more complicated question. There are some other facets to it that I would like to reflect on before I——

Chairman GIBBONS. I would like for you to reflect on it, because I think our Government ought to move expeditiously. One reason we moved countervailing duty cases and dumping cases over there to your department was because we weren't satisfied with the way the Treasury was moving on them. We make you the judge and the juror of many of the decisions involved, and I want to see you move fast. But it just kind of shocks my sense of fairness if the judge and the juror is also going to be the prosecutor in the case.

Now on export performance, and local content requirements by other nations, I am very disturbed about that. I think it is an unfair trade practice, and I don't know why some of our own local producers don't complain about it and bring those cases to you or to the proper forum for decisionmaking.

How serious are these export performance local content requirements in your estimation?

Secretary BALDRIGE. I have to give you what I can't call an official opinion, because I learned this before I got with the U.S. Government, so you can call it a hybrid opinion, Mr. Chairman. An American company going into a foreign country usually knows the content laws before he goes down there, A.

B, he usually gets something in return for putting up with the content laws, and so he goes in with his eyes open and decides to do it. That is why we don't hear more kicks from the companies themselves, besides some mild complaint. I mean, they don't come up, we don't see a lot of them coming up, or any that I know of coming up and saying that we should sue or do something like that.

Now, once they are down there ensconced, you see some countries raise the content, the local content requirements, and that does create some real problems. It is a trend that I don't like to see any more than you, but most of the companies put up with it because they have a way to make a profit and still are able to do it.

Chairman GIBBONS. I can understand that the local company or the company that has gone into a country is kind of in an embarrassed position if they complain, but I would imagine their competition would complain in this country or around the world. It looks to me like it is a classical well-disguised anticompetitive, unfair trade practice.

If an automotive company in order to get into Mexico, for instance, is required to export a part of its product to this country or to the Third World, that is in effect sort of a silent, or not even a silent, some kind of quid pro quo for their performance. And I would think that that meets the test of a classical unfair trade practice.

They are getting some kind of reward or subsidy for, in effect, pushing a product in another market, and that, to me, if you are going to self-initiate cases, it seems like, to me, that would be the place to self-initiate a case, because you have got someone who is really conspiring against other people, perhaps even an American concern conspiring with a foreign government to dominate a market or to commit an anticompetitive practice in a market.

Secretary BALDRIGE. There are cases around the world where U.S. companies, companies from many other of our major competitors, have gone into the country with a certain product line, and if they go in and start when there isn't enough business and go through some tough years, the country, the host country, guarantees that they will close the borders and not let any other company move in and compete with them.

That comes under the same definition, but that has been going on for years, and companies that moved in under those bases, of course, can always change. I have got to agree with you, Mr. Chairman. We do. When we were in Mexico, Bill Brock and I, we spent a lot of time on content, had the automobile people there, listened to what they had to say about it, talked to the Mexican Government about it. We are still talking to them about it. I can't judge the success it will have, but that is part of our negotiating process with them, because we think the last move was far too much.

Chairman GIBBONS. Mr. Secretary, I have got some other questions that I will submit in writing to you, because I don't want to take too much more time, and I know other Members have further questions they would like to submit in writing.

[The questions and answers follow:]

Question. Various separate parts of the Commerce Department deal with export development, the FCS, U.S. Commercial field offices, industrial analysis, private sector liaison, and trade policy. Would you describe how these various interrelated functions are coordinated and information flows to ensure (1) an overall export program here and overseas which maximizes U.S. business opportunities and (2) trade policy development in Commerce which reflects input from these various sources?

Answer. Coordination of the Department's export development activities is a primary concern of mine and is essentially the responsibility of ITA senior management. Programs are coordinated and information exchanges facilitated among industry and government groups through a long-range planning system, the Department's Management-by-Objectives (MBO) program, the Industry Sector Advisory Program, and ITA's working relationships with the National Governors Association and private sector organizations.

As part of its planning process ITA: (1) gathers information on overseas markets and domestic industry export potential; (2) develops short- and long-term industry targeted export assistance programs; (3) reviews policy issues, such as the Multilateral Trade Negotiations, which affect U.S. firms' market opportunities; and (4) determines the level of resources required to assist specific target industries or U.S. firms in general.

The efforts of the Department are measured against milestones set forth by a formal MBO process. This ensures that each unit pursues common objectives. Further, it ensures that plans and workload commitments are coordinated across all operating units, e.g., the Foreign Commercial Service, U.S. Commercial Service, Trade Development, and International Economic Policy.

Overseas and domestic export development activities are coordinated through a mechanism called the Post Commercial Action Plan (PCAP). The PCAP brings together the export development workload and program goals of all government agencies and requires an annual assessment of program activities, priorities and accomplishments. Exchange of information among operating units and the private sector occurs through industry consultation meetings which relay industry needs to my managers; industry liaison activities with trade associations; a formal liaison program with the National Governors Association, state development agencies and District Export Councils; and through a variety of programs which collect and distribute information, e.g., trade statistics, and market research.

The Department targets approximately half of its resources on industries with high export potential. This focus on specific industries in terms of trade development programs provides an additional mechanism for coordinating our program activities. The balance of our resources are reserved to assist firms in non-target industries that request assistance to export.

With respect to trade policy, the Trade Policy Committee structure is the primary interagency mechanism for policy coordination. We are an active participant in this process with the U.S. Trade Representative, the Department of State, and other interested agencies. Before the Department takes a position on an issue, every effort is made to ensure that our internal resources and expertise are fully utilized. Papers are circulated internally for comments and appropriate individuals participate in inter- and intra-agency meetings as necessary.

The Industry Sector Advisory Program is the primary mechanism for coordinating our trade policy responsibilities with the private sector. Meetings of the committees established under this program are attended, as appropriate, by representatives from the various functional areas within the Commerce Department as well as by representatives from other agencies. This forum represents an important opportunity for industry representatives and government officials to exchange views and seek solutions to important policy issues.

Question. What do you anticipate will be the effects of the overall 12 percent fiscal year 1982 budget cut on operations of the International Trade Administration and what specific functions and activities will be cut and by how much?

Answer. The 12 percent budget cut, as reflected in ITA's fiscal year 1982 revised Senate Appeal document would (1) eliminate a program increase which would permit the Foreign Commercial Service to increase current resources by 30 positions and $1,100,000 to provide an active tourism support service and (2) limit the Trade Adjustment Assistance program's ability to assist firms which have been adversely impacted by imports by reducing direct loans by $16,243,000 to $13,757,000 and by reducing loan guarantee authority by $7,500,000 to $35,000,000. The remaining combined direct loans and loan guarantees should provide a capability of helping between 50–60 firms, as opposed to about 80 firms.

Question. What will be the impact of the 12 percent budget reduction on the export promotion program? For example, an October 20 article in the Daily News Record states that the $2 million textile-apparel export promotion program may be cut. What is your view on reducing government export promotion costs, particularly for trade fairs and trade missions, by having the participating industries foot more of the bill?

Answer. As reflected in ITA's fiscal year 1982 revised Senate appeal document, the 12 percent reduction would have no impact on ITA's export promotion costs. In addition, ITA does not intend to cut the $2 million textile-apparel export promotion program.

With respect to reducing government export promotion costs by having industry foot more of the bill, ITA is always seeking to minimize government costs while at the same time maintaining a viable program that is supportive of small and medium-sized businesses interested in entering the export market. ITA is currently reviewing its present fee structure in the interest of making trade promotion programs more self supporting.

Question. Various separate parts of the Commerce Department deal with export development, the FCS, U.S. Commercial field offices, industrial analysis, private sector liaison, and trade policy. Would you describe how these various interrelated functions are coordinated and information flows to ensure an overall export program here and overseas which maximizes U.S. business opportunities?

Answer. The Department has instituted a Management by Objectives (MBO) process to unify trade promotion (and other) activities. This approach allows us to identify our major objectives, ensures that all units focus their activities on them, and provides a means for assessing progress.

For its trade development functions, ITA uses a planning system which involves ITA units worldwide to direct Department resources and activities to industries and countries where U.S. business opportunities are greatest. This system permits maximum decentralization of program responsibilities while ensuring central management control and program coordination.

Coordination of overseas and domestic functions is achieved through the Post Commercial Action Plan (PCAP). Domestic USDOC units, other federal agencies, and overseas posts identify the trade promotion activities that will be provided overseas and supported domestically during a fiscal year. This approach resolves any questions about work priorities and responsibilities, and ensures that overseas and domestic program goals and required resources levels are properly matched.

Exchange of information among operating units and the private sector occurs through industry consultation meetings which relay industry needs to ITA managers; industry liaison activities with trade associations; through special working groups (e.g. MTN Implementation Task Force); and through a variety of programs which collect and distribute trade statistics, market research and other information. TD also has a formal liaison program with the National Governors Association, state development agencies, and District Export Councils to ensure a two-way exchange of information between Federal and non-Federal groups and close coordination of activities.

Question. What do you view as the role of the U.S.-Japan Trade Facilitation Committee (TFC) in relation to other bilateral groups with Japan headed by State and by USTR and in relation to the USTR overall coordinating and negotiating function?

Answer. The principal role of the TFC is to identify and resolve non-tariff access problems of U.S. firms, industry associations, and industry sectors in the Japanese market. Through its case work, the TFC can also identify generic problems suggested by the pattern of individual complaints. The TFC works closely with other agencies to develop its cases. The TFC thus plays a unique role in the total U.S. government effort to improve U.S. access to the Japanese economy. TFC results are coordinated with the multi-agency approach through the Japan Trade Subgroup, led by USTR, which in turn reports to the U.S.-Japan Economic Subcabinet meetings, led by State.

Question. Would you tell us about what issues were discussed and the results of your discussions with the Japanese under the Trade Facilitation Committee during your recent trip? What are the next steps in terms of the agenda and our objectives for the December and future meetings?

Answer. The Department of Commerce has recently presented to the Japanese side of the Trade Facilitation Committee (TFC) seven new market access cases on behalf of U.S. firms. During my trip to Japan I urged the Japanese to investigate these cases and suggested possible solutions at the December 8 meeting of the TFC Senior Review Committee in Tokyo.

At the December 8 TFC meeting, we discussed seven recently-submitted market access cases on behalf of U.S. firms, steps which the Japanese Government is taking to implement MITI Minister Tanaka's July 14 import promotion statement; the second follow-up report on results of the September 1980 Japanese auto parts buying mission to the U.S.; and procedures the TFC might follow to bring about the most expeditious resolution of TFC cases.

A meeting of the TFC Executive Council is scheduled for the spring of 1982. One of the topics we wish to discuss at this meeting concerns U.S. industry sectors which are competitive internationally, but whose share of the Japanese market is markedly lower than in other comparable world markets. We have identified and have begun work on three sectors: medical equipment, soda ash, and paper. We plan to work with Japan to determine the reasons for these and other competitive U.S. industries' relatively low share of the Japanese market, and to determine ways to increase U.S. access in these sectors.

Question. You testified that in addition to government barriers there are private barriers in Japan, that is, private Japanese companies do not choose to purchase a U.S. product even if it is better and cheaper. Since your position is that the U.S. Government should "aim to eliminate government barriers to U.S. exports," what do we do about these private barriers that may be equally important?

Answer. Ingrained practices of the Japanese private sector discourage imports. Chief among these is the close relationship many Japanese buyers have with their traditional Japanese suppliers. At the November 1980 meeting of the U.S.-Japan Trade Facilitation Committee (TFC) in Tokyo, agreement was reached that such issues could be dealt with in the TFC forum. The TFC follow-up to the Japanese auto parts buying mission of September 1980 is designed in part to help increase U.S. sales of auto parts to Japan in the face of close traditional relationships between Japanese automobile manufacturers and their family of suppliers.

During my visit to Japan, I met with the President of the Keidanren, and addressed a high-level meeting of Japanese financial executives. In each instance, I pointed out that these private sector biases were an important factor in keeping down Japanese imports of manufacturers and making it impossible for us to reverse our deficit. Under the Strauss-Ushiba agreement, the TFC has a designated role in expanding Japanese manufactured imports and we have agreed to work with our MITI counterparts in implementing Minister Tanaka's policy statement on this subject.

Question. Do (you) feel that U.S. high technology industries are on par with Japanese treatment of their high technology industries with respect to tax policy and support of R&D? If not, what do you propose?

Answer. Japanese tax programs provide a complicated range of incentives and support for high technology development, making it very difficult to draw direct parallels. On balance I believe that Japan's high technology sectors still enjoy greater R&D support and a lighter tax burden than prevail in the U.S. The tax treatment afforded new R&D spending and capital equipment under the Administration's Economic Recovery Program does promise improved American competitiveness as its benefits are gradually realized. It does not, however, compensate for the direct support given by the Japanese Government as well as the subtler forms of tax avoidance and public financial assistance.

Let me give some examples of Japanese Government activities. Japan's Ministry of International Trade and Industry (MITI) sponsored the recent international conference on the fifth-generation computer and is considering setting up a new software institute to help computer companies overcome their programming shortcomings. MITI and other Japanese Government agencies directly fund substantial research activities in high technology areas. MITI is estimated to have loaned private industry, through the agency for Industrial Science and Technology, nearly $500 million in 1981 in no-interest loans. An additional $25 million was made available through MITI's Association of Information Processing Companies. The Development Bank of Japan (DBJ) in 1981 reportedly lent the computer and electronics industry $220 million and other high technology industries a further $210 million. DBJ loans carry a preferential interest rate.

All this means that the United States Government needs to take a closer look at the international environment in which U.S. high technology industries must operate. I have formed a Task Force to undertake this project with the goal of identifying a set of U.S. Government policies that will provide maximum support to our high-tech firms consistent with economic realities and the appropriate relationship between government and industry in the United States. This Task Force will submit its report within the next few months, and I will be prepared at that time to answer your questions on what proposals I consider appropriate to support the efforts of U.S. high technology firms to improve their competitive position.

In the meantime, we intend to press these issues in our bilateral discussions with Japanese officials, and expect to secure improved access on a product-by-product basis for U.S. exports of high technology goods to the Japanese market.

Question. Would you please elaborate on your testimony before the Joint Economic Committee in June in which you stated:

"We've got to develop an effective response in a timely fashion to this problem where Japan targets certain of the major industries, protects them with high tariffs as they're growing up, gives them government subsidies to make them strong, and then, when at last they are strong, turns them loose in the world and demands free trade all the way around."

What is being done to develop "an effective response" and what might it be?

Answer. Tokyo Round tariff reductions and non-tariff measure agreements to which the Japanese Government has acceded represent a major step in liberalizing formal Japanese barriers to imports. The agreement to open NTT procurement is a good example. Over the years, closed NTT procurement has been a major source of funding and volume advantages for a host of Japanese high technology industries, including semiconductors, communications equipment and computers.

We have also made progress through the Trade Facilitation Committee work on individual cases, including the ground-breaking agreement eliminating certain Japanese restrictions on computerized timesharing of international telecommunications.

We are now conducting several research projects in Commerce, in cooperation with other agencies and outside contractors, to determine the industrial and trade policy measures the Japanese are likely to adopt in pursuing the MITI Vision of a knowledge-intensive economy. We are also projecting the probable impact of Japanese actions on U.S. trade, industrial and strategic interests.

At the same time, we have established a MITI-Commerce Executive Council to consider exactly these kinds of long-range issues. We have already proposed a joint project to identify and eliminate Japanese barriers to U.S. industries which are highly competitive at current technology levels. By focussing bilateral attention on these matters at this stage, I believe we can prevent them from becoming serious issues between us.

Japan has benefitted greatly from the liberalization of the international trading system. As a major industrial power Japan must ensure that it also provides meaningful access to its markets. During the recent meeting of the U.S.-Japan Trade Subgroup we underscored the importance of Japan undertaking structural reforms to ensure that informal trade barriers do not impede access to its markets. This Administration will continue to accord the highest priority toward reaching this goal.

Question. What in your view, is U.S. policy toward a subsidy commitment and application of our countervail injury test to Mexico and what degree of commitment should we require in return for an injury test? What is being done on this issue in the U.S.-Mexico Joint Commission which you co-chair with Ambassador Brock? What is your policy on granting an injury test to Mexico on duty-free imports in light of your decision in the toy balloon case?

Answer. The United States will designate Mexico as a country eligible to receive the injury test under the U.S. countervailing duty law only if Mexico in turn adopts real discipline regarding its future use of export subsidies. In evaluating the specifics of required Mexican export subsidy discipline; the U.S. will apply the same principles and considerations which we would apply to any developing country under our export subsidy commitment policy. Under that policy, the U.S. requires the adoption by a developing country of an affirmative commitment to restrict its use of export subsidies before the U.S. will grant that country the injury test under U.S. law. This policy was adopted because the U.S. believes that the restricted use of export subsidies by all countries, including developing countries, is as important a principle for the U.S. as the injury principle under U.S. domestic countervailing duty law is for our trading partners. This belief will govern our future discussions with Mexico and any other developing country.

At this stage, discussions have not progressed to the point where the specific nature of a commitment appropriate for Mexico has been formulated. When those judgments are made, Mexico will be expected to adopt disciplines which reflect its stage of economic development and its status as a major trading partner of the United States.

The granting of both domestic and export subsidies, by the Government of Mexico and the application of countervailing duties to products benefitting from such subsidies by the U.S., was part of the agenda for the inaugural meeting of the Joint Commission. Extensive discussion of the issue at that time resulted in an agreement to continue examination of the issue within the Joint Commission, following discussion at the technical expert level. The aim of these continuing consultations is to develop a mutually acceptable framework for dealing with this issue within limits established by U.S. law and Mexico's development needs. A technical-level meeting on the nature of U.S. countervailing duty legislation and Mexico's development incentives program was held in Mexico City November 16–17. A second such meeting will be necessary to complete the exchange of technical information. All discussions to date have been limited to a factual exchange of information. Establishment of this body of knowledge will lay a groundwork essential to undertaking subsidy commitment negotiations, should a decision to do so be made.

With respect to duty-free products, the Commerce department did decide in the case of toy ballons from Mexico that an "international obligation" to provide an injury test did exist by virtue of a 1978 Treasury Department action involving textiles from Mexico. At the same time, however, we advised the Mexicans that the "international obligation" created by the 1978 decision would apply only to the toy balloons case and that the toy balloon decision did not create a legal precedent for any future cases involving duty-free Mexican products. Our decision on Mexican balloons is in litigation, but regardless of the outcome of that legal action, our position on its relevance to any future Mexican countervailing duty case involving duty-free products is the same.

Question. What specific efforts and progress are being made in the Joint Commission to liberalize Mexico's restrictive import policy providing a high degree of domestic industry protection through licensing on 82 percent of Mexico's imports, high tariffs, and protective valuation practices?

Answer. At the inaugural meeting of the Joint Commission in September, the U.S. expressed its serious concern with Mexico's trend toward trade deliberalization, and strongly encouraged Mexico to relax its restrictive import regime as soon as possible. To alleviate the impact of import licensing requirements and increased tariffs in the short-term, the U.S. was successful in obtaining Mexico's agreement to consider our request that these requirements be waived for U.S. companies facing hardship problems associated with goods "in process" or in transit. Temporary relief has been secured in several cases.

In February 1982, the Joint Commission's Technical Secretariat will meet in Mexico. This will be the first opportunity since the full Commission meeting in September for face to face discussions with the Mexicans on their import policy. We intend to present to them at that time those documented cases where Mexico's import restrictions are causing serious hardship to U.S. companies, and seek to have the restrictions waived in those specific cases. Additionally, Mexico is in the process of finalizing its 1982–83 import program. We will request at the Technical Secretariat meeting that a full airing of that program take place in April, when the full Commission in tentatively set to meet.

Question. You mention in your testimony that a U.S.-China Joint Commission on Commerce and Trade has been established to strengthen our commercial relations and to "advance American industry's participation in China's vast development program."

Would you describe what the objectives, role, agenda of issues and timing will be of this Commission and agency responsibilities for its operation?

Answer. We expect that, as one primary bilateral forum for discussing U.S.-China commercial relations, the Commission will deal with the problems that inhibit bilateral trade and investment and serve as an institutional umbrella for joint activities to promote U.S. firms' participation in China's development projects. We have proposed a detailed agenda of topics we wish to discuss at the first session of the Commission, tentatively scheduled to meet in Washington in the spring of 1982. We solicited Chinese views on the proposed structure and agenda of the Commission at meetings of the Joint Economic Committee, held in Beijing, November 15–17. We achieved basic agreement on the topics we wish to discuss. Our embassy in Beijing is working with the Chinese on the remaining logistical details. At the moment we are awaiting a Chinese reply to our proposals including the time and place for the first meeting.

The issues we have proposed for discussion at the first session include outstanding trade policy issues, including any pending unfair trade practice cases and Chinese exports in domestically sensitive product sectors; problems pertaining to the operating conditions for U.S. firms in China and the status of Chinese commercial representatives in the U.S., Chinese trade and investment practices, patent and trademark matters and other legal issues relevant to bilateral commercial relations. We also wish to explore in detail China's development priorities and plans for specific sectors, with special emphasis on U.S. firms involvement in China's major energy projects.

While the Department of Commerce will be the lead agency, the Commission will have broad interagency representation. All interested Departments and agencies, including the U.S. Trade Representative, State, Treasury, Agriculture, and Energy will be actively involved.

Question. Section 412 of the Trade Agreements Act of 1979 provides for the establishment of a Standards Technical Office in the Department of Commerce. What is the status of that office and how is it staffed? What do the 12 percent reductions in the President's proposed budget and proposed Commerce internal reorganization mean for this office? How does this office relate to the functions of the National Bureau of Standards?

Answer. A standards technical office called the GATT Technical Office has been established under the Office of Product Standards Policy (OPSP). As a result of an internal Department of Commerce reorganization, OPSP will be reassigned to the National Bureau of Standards (NBS). The GATT Technical Office currently is staffed by one person. GATT Standards Code responsibilities (the technical office and the inquiry point) have received no permanent funding in the current or projected NBS budgets, and with budget cuts the programs could be placed in jeopardy. In the absence of new direct funding, funds from the Office of Engineering Standards that are currently being used to support the activities of the GATT Technical Office are highly vulnerable to cuts as part of the proposed 12 percent budget reduction.

Three principle benefits are anticipated as a result of shifting OPSP to NBS and merging it with the NBS Office of Engineering:

(a) The GATT Technical Office will have closer access to NBS technical staff in fulfilling assigned responsibilities, and will be able to coordinate its activities more closely with the inquiry point, the Standards Information Center.

(b) The GATT Technical Office will be able to draw on the many longstanding, close NBS links with the private sector's standards community and thereby enhance its capability to identify and clarify standards issues.

(c) The two principal Commerce units with operating responsibilities for implementation of the Standards Code, ITA and NBS, will have direct lines of communications and will become more efficient.

Question. You stated in your testimony, with respect to providing U.S. Business information on a timely and usable basis to take advantage of opportunities under the government procurement code, that you have translation problems, too short a turnaround time, and insufficient personnel. Would you elaborate on these problems and what is or might be done about them, particularly in light of the President's proposed agency implementation of other MTN agreements?

Answer. Implementation of the Government Procurement Code overseas involves the identification of a procurement notice covered by the Code, translation of the notice into English in some cases and reporting the notice to the Department of Commerce (DOC). DOC/ITA is charged with the responsibility of providing both specialized and general dissemination of the substance of the opportunity to interested U.S. companies. In most instances procurement notices require that bidders submit bids within 30 days of the initial foreign government publication announcement. This is an extremely brief period for the FCS or other U.S. Government Offices to identify and report procurement opportunities; for the DOC to distribute the information to U.S. companies; and for U.S. business to obtain and prepare the documents necessary to submit bids or qualifications to the appropriate foreign government entity. The DOC utilizes the automated Trade Opportunities Program list of potential bidders as well as identification of firms through special identification/handling techniques to facilitate the handling of these procurement opportunities. Nevertheless the time constraints inhibit the potential for U.S. firms to bid successfully.

No funds or staff were specifically provided for the implementation of the MTN Government Procurement Code in fiscal year 1981. Implementation efforts have been dependent on a reallocation of staff and resources from other trade development programs activities. We expect to continue managing the MTN-Government Procurement implementation activities within the context of the total agency resources.

The other code where we face similar problems is the Standards Code and our efforts to disseminate foreign technical regulations. The National Bureau of Standards does not have adequate resources to translate foreign technical regulations. The comment period on proposed mandatory foreign technical regulations is often 30 days or less. This is generally insufficient time for U.S. business to analyze the proposed regulation, prepare a response and for DOC to forward comments to the appropriate foreign agency.

Question. You also state that it is the companies already familiar with the MTN and government procurement that have expressed interest in your programs and that you're concerned that U.S. firms are not independently moving more aggressively to take advantage of the business opportunities. Do you have any idea as to why this is the case? What efforts are making to interest small and medium-sized companies in these opportunities? You state that over 1,000 government procurement notices of proposed purchases have been published by foreign code signatories this year, representing new export opportunities. Do you have any idea as to how many of these have been followed up by U.S. company bids?

Answer. Additional U.S. firms will become more active in taking advantage of these opportunities once they understand the procedures for pre-qualification, translation and bid preparation. In order to inform firms of these opportunities, ITA is giving internal consideration to an expanded awareness program which will concentrate on advertising the advantages of participating in MTN opportunities. We anticipate that such a program will make more small and medium-sized firms aware of the Foreign Goverment Procurement Code and the sales potential that is offered by responding to the tenders.

In addition, we have concentrated on disseminating notices and documents to all firms through: announcements in the Commerce Business Daily, the Trade Opportunities Program, and the Special Handling Division of the Office of Major Projects. Through the Special Handling and the Trade Opportunities Programs, businesses are contacted directly on specific MTN-related opportunities that may be of interest to their company.

At this time we do not have complete information regarding the number of foreign government contracts that U.S. firms have responded to, nor do we have information on the number of U.S. firms awarded contracts. We have seen some results in Japan—22 American firms have qualified as suppliers to NTT and 6 contracts have been awarded to U.S. firms. In addition, over 400 American firms have succeeded in getting on the permanent bidders' lists maintained by various Japanese ministries and as a result American firms have won 22 contracts.

Although the procurement code requires that aggregate statistics be maintained, these will not be available until mid-1982 when data based on the first year's (1981) experience become available.

Chairman GIBBONS. Do other Members have any questions they want to propound now? Mr. Frenzel.

Mr. FRENZEL. Mr. Chairman, I don't want to propound a question but simply to pass on a compliment. I have attended one of the seminars that you provide on the subject of trade for American businessmen. It is a splendid program, well received in my area, if I understand your statistics well, well received all over the United States.

As the budget reductions come in, you can't do everything just the way you did it before, but that is a very successful program, and I hope insofar as possible that it will be maintained and perhaps enhanced.

Secretary BALDRIGE. Yes, it will be, Mr. Congressman. Thank you.

Mr. FRENZEL. Thank you.

Chairman GIBBONS. Mr. Secretary, I have got another couple of questions for you that are not exactly trade questions. They may be political questions, so let me warn you in advance. Back on October 21, you were quoted as saying in a television broadcast, "A slight recession, I think, is almost necessary right now." What did you mean by that?

Secretary BALDRIGE. I am glad you asked me that because you are the second one who has asked me that, and I knew as soon as I said it it was the wrong phraseology.

Chairman GIBBONS. Welcome to the club. I have had that problem.

Secretary BALDRIGE. Here is what I had clearly in my mind, and I should have said inevitable instead of necessary. Due to what has been going on on the inflation front in the last few years, and particularly in 1980, when we saw inflation reach 18 percent, then the administration put in credit controls, the GNP went down 10 percent in one quarter, then they stimulated the economy, we had almost a 9-percent GNP growth in the first quarter, so our economy has been jerked around in three-quarters from minus 10 to plus 9 percent.

There was no way to get at inflation and slow the monetary growth and so forth with that background, without some kind of a slowdown verging on a recession, and it is a recession now, I think, becoming inevitable, and I used the word necessary and I regretted it as soon as I said it. But I certainly didn't mean that we want to have a recession to get at inflation, because that is the kind of thing we do not want. But inevitable would have been a much better choice of words.

Chairman **Gibbons**. Mr. Secretary, I am glad you clarified that. I didn't hear the quote. I think all of us in public life realize that sometimes we say a word that we wish we could retract, and so I understand your position. Thank you very much for coming this morning. I hope you get a good night's sleep here soon. I know how jet lag tears you up after these trips.

Secretary **Baldrige**. Thanks for the opportunity, Mr. Chairman.

Chairman **Gibbons**. Next we will hear from Mr. Sprinkel.

Mr. Sprinkel, we welcome you as Under Secretary for Monetary Affairs, Department of the Treasury.

Mr. Sprinkel, we will put your entire statement in the record, and you may proceed any way you wish.

STATEMENT OF BERYL W. SPRINKEL, UNDER SECRETARY FOR MONETARY AFFAIRS, DEPARTMENT OF THE TREASURY

Mr. **Sprinkel**. Thank you, Mr. Chairman.

With your permission, I will submit a full text and present a brief one at this time.

Chairman **Gibbons**. Yes, sir, go right ahead.

Mr. **Sprinkel**. I welcome this opportunity to discuss the Treasury Department's interest and involvement in U.S. trade policies. My comments will focus on the importance of trade to the U.S. economy and the close relationship between U.S. trade policies and our economic policies as well.

I plan to discuss briefly our balance-of-payments situation and exchange rate policies. I will then turn to three areas of special interest to Treasury—export finance, international investment issues, and banking.

International trade is vital to the U.S. economy. Our exports provide jobs for American workers, markets for U.S. industries, and growth for the economy as a whole. Our imports provide a stimulus to economic innovation and efficiency, a check against inflation, essential inputs for U.S. industries, and a wider range of choice for U.S. consumers.

Other members of the administration have reviewed the key trade statistics with you. They are impressive. Yet, a surprising number would argue that the U.S. Government should intervene to protect ailing U.S. industries from import competition, particularly with regard to sensitive basic industries or to subsidize exports to improve our trade balance.

Slow economic growth, unemployment, rapid inflation and increasing competition for markets are causing similar pressures in other nations as well.

There is a real risk, in my opinion, that Government may be tempted to make imports the scapegoat for more fundamental domestic or international economic problems rather than addressing these problems directly through appropriate domestic economic policies.

We must not do so. Such intervention is not in our economic interest. It would be contradictory to the economic policies of this administration, which aim to reduce Government's interference in private sector decisions. It could lead to retaliatory trade restraints that would merely hurt all nations and benefit none.

The administration's trade policy is based upon the following key points:

We are committed to a policy of open markets. Protectionism would be counterproductive to our efforts to reduce inflation and improve productivity, and it could be highly detrimental to our export interests. We will, however, endeavor to insure that goods are fairly traded in the U.S. market without being dumped or subsidized in an injurious way.

We similarly reject a policy of U.S. export subsidization to improve our trade balance. Such subsidies distort trade at a high cost to national treasuries and provide no lasting advantage.

We will aim actively to reduce or eliminate barriers to U.S. exports, both at home and abroad. Our domestic economic program, furthermore, will help reduce inflation and increase productivity as a means of improving our trade competitive position in domestic and foreign markets.

Our domestic and international economic policies are inextricably linked. U.S. trade is important not only to the U.S. economy, but to the strength and growth of foreign economies as well.

The benefits of trade flow both ways. We will work hard to assure that this two-way street remains open in both directions.

This subcommittee has expressed a special interest in the outlook for the U.S. balance of payments and trade and the effect of exchange rate changes on U.S. trade flows. My written statement summarizes the key changes in our trade balance during the past decade.

The major cause of a swing in our trade position from surplus to a record deficit of $34 billion in 1978 was the massive increase in price and volume of U.S. oil imports, although we have made significant progress in reducing the volume of oil imports more recently.

A sharp increase in agricultural exports has helped to pay for these oil imports, but our record has been mixed for manufactured goods. Our trade balance, excluding agricultural exports and oil imports, recorded a deficit of $21 billion in 1978 in the aftermath of the 1974–75 recession, but rebounded to an $11 billion surplus in 1980, nearly a $33 billion improvement.

Our share of manufactures exports by the major industrial nations has also improved from a low of 16 percent in the first quarter of 1978 to a high of 20 percent in the first quarter of 1981, slightly above our market share in 1971.

Some of these improvements can be attributed to the earlier dollar depreciation. Other key factors which could affect the deficit in the period ahead include our pace of economic recovery relative to economic growth overseas and our relative inflation performance. A reduction in U.S. inflation would help to offset the effects of faster U.S. economic growth.

The magnitude and timing of future changes in the U.S. trade deficit are not clear at this point. What is clear is that if the trade deficit deepens, as is anticipated, protectionist pressures may well increase in such industries as steel and autos until economic recovery is well underway.

It is essential for both Congress and the administration to resist these pressures and to avoid action detrimental to our fundamental economic interest.

What should we do? Raising import barriers isn't the answer, nor are general export subsidies. Both distort trade and lead to a serious misallocation of resources. U.S. intervention to alter market-determined exchange rates, furthermore, is neither sensible nor practical.

It would be extremely difficult to hold rates against a basic market sentiment and a massive outpouring of dollars to do so would exacerbate problems of bringing the money supply under control.

All of these responses are shortsighted and potentially damaging to our economy as a whole. The proper policy response is twofold.

One, we must follow through with the administration's economic program to stimulate investment, raise productivity and reduce inflation, thereby enabling U.S. producers to compete effectively at home and abroad.

We must work vigorously to reduce barriers that interfere with the free operation of markets, both in our own economy and abroad. This includes attacking distortions such as subsidies and investment performance requirements, and seeking the further reduction of tariffs and nontariff trade barriers, including those affecting services.

Furthermore, from a broader perspective, we expect our impressive services surplus to continue to grow in the future, as should net capital inflows.

The U.S. external position as a whole is sound and strong. The United States is determined to reduce and, if possible, eliminate foreign official export subsidies. Negotiations to reform the international arrangement on export credits, which sets guidelines as to interest rate, term, and downpayments for official export credit programs, have had a very high priority for us.

Interest rate subsidies cost industrial countries some $5.5 billion in 1980, and undoubtedly more this year. We have recently made progress in two key areas. Our agreement with 22 other OECD governments increases the minimum interest rate level under the arrangement by 2¼ to 2½ percentage points, and should result in a significant reduction in export credit subsidies.

Japan and other low interest rate countries now may key official export credit rates to their financial market rates, but no lower than 9¼ percent.

The participants will meet again next March to review the full arrangement with the objective of bringing its interest rates even more into line with market rates.

We have also achieved a separate understanding on a common set of guidelines regarding aircraft financing which stipulates a minimum interest rate of 12 percent for dollar of financing with an obligation for further review of this figure as early as next year.

We will continue to press for further progress in reducing export credit subsidies, and will consider other alternatives if no progress is made.

International investment is an issue of major Treasury interest. The Cabinet Council on Economic Affairs, which Secretary Regan chairs, has established a working group to review U.S. policies in this area. Treasury Assistant Secretary for International Affairs Marc Leland also chairs the Committee on Foreign Investment in the United States.

International investment is integral to our overall domestic economic policy, to current and future U.S. trade patterns and to the strength of the dollar.

U.S. investment income on direct investments abroad totaled $37 billion in 1980, more than offsetting our merchandise trade deficits of $25 billion. These investments provide a significant stimulus to U.S. trade, and a major source for U.S. corporate earnings and savings for the U.S. economy.

The CCEA review will examine U.S. restrictions which unnecessarily hamper U.S. corporate activities overseas. It will also attach a high priority to the study of restrictions placed by foreign governments on investment by U.S. businesses abroad, and on appropriate U.S. responses.

Investment incentives and performance requirements through which countries attempt to tilt the economic benefit of individual investment in their behavior distort both capital and trade flows.

This administration has expressed its concern about these practices strongly in both bilateral and multilateral forums. We have proposed that the OECD review measures of this type as a key issue on the international trade agenda for the 1980's.

Another issue of major interest to the Treasury Department is the U.S. effort to increase international awareness of present barriers to trade in services and to develop a consensus for action to reduce them.

Treasury has participated actively in interagency discussion of the strategy which the United States might pursue in seeking to reduce barriers of particular concern to U.S. firms, and has the lead in developing a strategy for banking, securities and related financial services.

Both in international organizations such as the OECD and through bilateral discussions with Finance Ministry and Central Bank officials, the U.S. Government has been working with countries that do not allow U.S. banks and security houses to compete on an equal basis to persuade them to liberalize their regulations.

Although we are not yet satisfied and will continue to watch developments closely, we are pleased with the progress that has been achieved in two key countries, Canada and Japan. In this effort we are in close and frequent contact with U.S. banks, financial institutions and trade organizations. We also seek the views of U.S. regulatory agencies.

Some of the problems encountered are of a cross-border type. Others pertain to purely domestic market activities. I can assure you that our initiatives and objectives, whether pursued bilaterally, in the OECD committees on capital movements and financial markets, to which we attach considerable importance, or in the context of even wider negotiations on services, will continue to reflect both the Congress as well as the U.S. Treasury's own deep desire to work toward national treatment for U.S. financial interests overseas.

In conclusion, Treasury has a keen interest in the areas of export finance, investment, and financial services which I have addressed in my remarks today. They will be important items on our agenda for the 1980's as we seek to improve international cooperation and to reduce Government impediments to the free play of market forces.

Thank you, sir.

[The prepared statement follows:]

STATEMENT OF HON. BERYL SPRINKEL, UNDER SECRETARY FOR MONETARY AFFAIRS, DEPARTMENT OF THE TREASURY

I welcome this opportunity to discuss the Treasury Department's interest and involvement in U.S. trade policy. My comments will focus on the importance of trade to the U.S. economy and the close relationship between U.S. trade policies and our economic policies as a whole. I plan to discuss briefly our balance of payments situation and exchange rate policy. I will then turn to three areas of special interest to Treasury: export finance, international investment issues, and banking.

Trade and the U.S. economy

International trade is a vital component of the U.S. economy. U.S. exports provide jobs for American workers, markets for U.S. industries, and increased growth for the economy as a whole. Imports provide a healthy stimulus to domestic economic innovation and efficiency, a check against inflation, essential inputs for U.S. industries, and a wider range of choice for U.S. consumers. The statistics are impressive:

U.S. merchandise exports totaled $222 billion in 1980 and accounted for 8.5 percent of our gross national product, or nearly one-fifth of U.S. production of goods, excluding services.

The ratio of both imports and exports to U.S. GNP has doubled over the past decade.

One out of every eight U.S. manufacturing jobs produces for export, as does one of every three acres of U.S. farmland.

Over five million U.S. jobs are dependent upon merchandise exports; trade-related jobs in the services sector, in import-handling, and in industries dependent upon imports further increase this total.

Despite the clear importance of trade to the U.S. economy, there is increasing concern in some quarters that the U.S. Government should intervene to protect ailing U.S. industries from import competition. Others claim we should artificially stimulate exports to improve our overall balance of trade.

Similar pressures to restrict trade are increasing among our major trading partners, as well. They are fed by mutual problems of slow economic growth, high unemployment and rapid inflation, and by increasing international competition for markets. Structural problems in the major steel, auto, and textile industries have prompted efforts to maintain employment in these sectors—through trade and domestic measures—while delaying or avoiding fundamental adjustment to technological change and increasing automation worldwide.

There is a real risk that policy makers will be tempted to make imports the scapegoat for more fundamental domestic or international economic problems, rather than addressing these problems directly through appropriate domestic economic policies. Pressures for both traditional and new forms of import restraint and export subsidy can be enormous when sensitive domestic industries are at stake. We must not accede to these temptations, nor repeat the mistakes of the 1930's when trade protectionism and aggressive exchange rate behavior accelerated the slide into a decade of worldwide economic adversity.

Such intervention in markets is not in the interest of the U.S. economy. It would be clearly contradictory to the economic policies of this Administration. Our basic aim is to reduce, rather than increase, the government's influence and interference in private sector decisions, freeing U.S. businesses to respond creatively to the needs of the international marketplace. Our international trade and economic policies necessarily draw upon and directly complement our domestic program, which is designed to encourage investment, reduce inflation, and eliminate unnecessary and burdensome government regulations.

Ambassador Brock and others have already discussed the major outlines of this Administration's trade policy:

We are firmly committed to a policy of open markets. We reject trade protectionism as inconsistent with our fundamental economic beliefs, counterproductive to our efforts to reduce inflation and improve domestic productivity, and potentially highly detrimental to our export interests. We recognize, however, that some countries tend to follow policies which are more mercantilist, and we will endeavor to ensure that goods are fairly traded in the U.S. market without being dumped or subsidized in an injurious way.

We similarly reject a policy of export subsidization to improve our trade balance. Such subsidies provide an artificial distortion of trade at a high cost to national treasuries and taxpayers, with no lasting trade advantage.

Rather, we aim actively to reduce or eliminate government-imposed barriers to U.S. exports, both within the United States and overseas; to reduce inflation; and to increase our domestic productivity as a means of improving our competitive position in both domestic and foreign markets. We recognize that without a strong domestic economic program, the United States cannot expect to compete at its best either at home or abroad. Rapid inflation reduces the natural comparative advantage of U.S. industries, while a stagnant investment climate and minimal gains in productivity mortgage their future competitive edge as well.

These are the fundamental problems which our domestic economic program is designed to redress. A stringent budget policy is essential to this effort and will dramatically reduce the Federal Government's claim on financial resources needed by the private sector for future investment. Our tax package similarly provides incentives to save and invest, while our monetary policy is designed to reduce inflationary expectations and bring inflation permanently under control. Finally, eliminating unnecessary government regulations will reduce the inefficiencies and enormous costs forced by such regulations on the private sector.

In addition to improving our own competitive position in world markets, this program will also achieve a number of important international objectives:

Domestic monetary and price stability will contribute to restoring confidence in the dollar and to achieving stability in international and domestic financial markets.

A more stable U.S. growth rate will reduce the volatility of U.S. imports and thus contribute to economic stability in other countries.

A more dynamic and innovative U.S. economy will help reduce protectionist pressures both in the United States and overseas by increasing market opportunities and reducing unemployment.

The close interrelationship between our domestic and international economic policies reflects the strong interdependence of the U.S. and world economies. U.S. trade is important not only to the U.S. economy, but to the strength and growth of foreign economies as well. The United States is the world's largest exporter, and the single largest importer of merchandise goods. Our tariffs are among the lowest in the world. Access to U.S. markets has provided the single most important outlet for developing nations' manufactured exports, which are essential to their future development and which also provide earnings to pay for imports of U.S. goods. The benefits of trade flow both ways. We will work hard to assure that this two-way street remains open—in both directions.

U.S. balance-of-payments performance/exchange rate policy

This Subcommittee has expresed a special interest in the outlook for the U.S. balance of payments and trade, and the effect of exchange rate changes on U.S. trade flows. I would like to discuss these points briefly.

The U.S. merchandise trade balance was regularly in surplus from the end of World War II until 1970, when we had a small surplus of $2.6 billion. In 1971 our trade account swung into deficit, just $2 billion in that year, but this subsequently grew to a record $34 billion deficit in 1978. In 1979 and 1980 our trade position recovered some ground, but the deficit remains large, about $25 billion last year. We anticipate a similar deficit in 1981 and do not expect any significant reduction in the trade deficit for some time to come. It may in fact widen as our economic recovery takes hold.

The primary cause of the major swing in our trade position over the past decade has clearly been the massive increase in the price of imported oil, from less than $2.25 per barrel in 1970 to nearly $36 in the spring of 1981. Our volume of oil imports also rose dramatically from 3.6 million barrels per day in 1970 to 9.3 million barrels per day in 1977. Our agricultural exports increased substantially over this period. For manufactured goods, however, the record is mixed.

In the aftermath of the 1974-75 recession, our export performance on manufactured goods was lackluster. Imports of non-oil goods grew strongly, leading to concerns that the U.S. was losing trade competitiveness in the industrial sector. The U.S. trade balance, excluding agricultural exports and oil imports, worsened substantially from a $13.8 billion surplus in 1975 to a $21.3 billion deficit in 1978.

Since 1978 however, the U.S. competitive position in manufactured goods has improved and manufactured exports have grown at a very rapid rate. Our trade balance, excluding agricultural exports and oil imports, recorded an $11.3 billion surplus in 1980, nearly a $33 billion improvement over the 1978 deficit. The sharp decline in U.S. GNP in mid-1980, compared to the subsequent and more gradual slowing of economic activity overseas, contributed to an overall growth rate for U.S. nonagricultural exports of 22 percent in 1980 alone, while non-oil imports grew by less than 13 percent. As a result, the U.S. share of exports of manufactured products by the major industrial nations improved substantially, from a low of 16.2 percent during the first quarter of 1981, slightly higher than our market share in 1971.

Clearly, some of these improvements on non-oil trade are attributable to the lagged effect of earlier dollar depreciation. They may be subject to reversal in the future due to the recent appreciation of the dollar in international markets. If U.S. economic recovery occurs at a faster and earlier pace than economic growth overseas, this differential also would tend to increase the U.S trade deficit since U.S. imports would grow at a faster rate than our exports. On the other hand if the U.S. economy performs better in terms of inflation than the economies of our major trading competitiors, this would help to offset the effects of dollar appreciation and more rapid economic growth.

The magnitude and timing of future changes in the U.S. trade deficit are not clear at this point. What is clear is that if the trade deficit deepens as is anticipated, protectionist pressures may well increase in such industries as steel and autos until economic recovery is well underway. It is essential for both Congress and the Administration to resist these pressures and to avoid action detrimental to our fundamental economic interests. Other nations will be under similar pressures to restrict trade. We must all stand firm in our commitment to open markets, or risk a mutual proliferation of retaliatory restraints.

An increase in the U.S. trade deficit is of itself no reason for alarm. Nor is it our intent to intervene actively and regularly in foreign exchange markets to soften the effect of a strong dollar on our trade position, for two key reasons:

(1) It would be mistaken—and misleading—to look solely at the trade account as an indication of the strength of the U.S. economy. Our international transactions are composed of three major components: goods, services, and capital flows. U.S. performance in the services sector has improved dramatically in recent years and we look forward to further growth in our net services balance in the future. Net capital inflows are also strong and will improve further as a direct result of our domestic economic program, which will attract foreign investment in the United States. Our external position as a whole is sound and strong.

(2) U.S. intervention to alter market-determined exchange rates is neither sensible nor practical. There is little, if any, reason to feel that a relatively few officials in governments know better where exchange rates should be than a large number of decision-makers in the market. there is less reason to feel that governments should or can try to hold rates against a basic market sentiment. Furthermore, intervention to buy foreign currencies to hold down the dollar could require a massive outpouring of dollars for their purchase, exacerbating our problems of bringing the money supply under control. Rather, by bringing the domestic economy under control, we will contribute to the longer term stability of the dollar in exchange markets. We stand ready to intervene if unforeseen developments trigger clearly disorderly conditions in the exchange market. Otherwise, we should let the markets work and concentrate on addressing the fundamental economic problems.

Let me turn now to three other issues of major continuing interest to Treasury: export finance, investment policy, and financial services, especially banking.

Export finance

For the last three years, the United States and most of our industrial trading partners have been seeking to modify the international Arrangement on Export Credits, which sets guidelines as to interest rate, term and down payment for official export credit programs. Until two weeks ago, the minimum interest rates of the Arrangement and its predecessor agreements had not been changed significantly since 1975; and as market interest rates have risen in the meantime, the extent of credit subsidization permitted under the Arrangement has also risen. the OECD estimated these subsidies cost industrial countries $5.5 billion in 1980; they undoubtedly cost more in 1981.

The United States has been determined to reduce and if possible eliminate these subsidies. They distort trade flows and cause a misallocation of resources. In economic terms, they represent a transfer of money from taxpayers to the subsidized export industry, the foreign purchaser, or both. Accordingly, negotiations to reform the international Arrangement on Export Credits have had a very high priority for us.

As a result of these discussions, the United States recently concluded two significant agreements. One of those agreements, with twenty-two other OECD governments, increases the minimum interest rate levels under the Arrangement by 2.25–2.50 percentage points. This should result in a significant reduction in export credit subsidies. We have also gained limited acceptance by other nations to the principle that minimum interest rates should be differentiated by currency: Japan and other low interest rate countries now may key their official export credit rates to their financial market rates, but no lower than 9.25 percent. The Participants will meet again next March to review the full Arrangement with the objective of bringing its interest rates even more into line with market rates.

In a separate undertaking, the major producers of commercial jet aircraft have agreed to a common set of guidelines regarding aircraft financing which stipulate minimum interest rates of 12 percent for dollar financing. However, we do not pretend that we can stop here. Export credit subsidies must be reduced even further. To this end, we will press for further progress in the March talks and in subsequent discussions, and we will consider other alternatives if no progress is made.

Investment

U.S. international investment policy is also an issue of major Treasury interest and one that has received considerable attention in recent months. In recognition of the importance of investment to the U.S. economy, the Administration has established a working group under the Cabinet Council of Economic Affairs (CCEA), which Secretary Regan chairs, to review U.S. policies in this area. Treasury Assistant Secretary for International Affairs, Marc Leland, also chairs the Committee on Foreign Investment in the United States.

It is clear that international investment is integral to our overall domestic economic policy, to current and future U.S. trade patterns, and to the strength of the dollar. While the President's economic program is designed to increase the supply of savings available domestically for productive investment in our economy, we should also recognize that there is a huge pool of capital available abroad which can complement domestic investments.

We fully expect that implementation of the President's program will promote foreign investment in our economy. Passage of the President's budget and tax policies will convince foreign investors that the United States is determined to reduce the size of government, releasing a larger share of real resources to the private sector. The President's economic program will help to control inflation, a particularly important factor to foreign investors concerned about the stability of the dollar. The reduction of unnecessary regulations will reduce costs for all investors. In sum, we have a program with great appeal to investors, foreign and domestic alike.

We are confident that a revitalized and growing U.S. economy—with the largest, most homogeneous market in the world, a sophisticated and extensive infrastructure and distribution system, a substantial resource base, a sophisticated and accessible capital market, and a large pool of skilled labor—will provide quite attractive markets to foreign investors. This inflow of funds helps strengthen our capital markets, benefitting all who hold American securities. Moreover, it reduces the cost of raising both debt and equity capital, making it cheaper for firms to expand investment, which is vital to the success of the President's economic plan.

Turning to the other half of the investment picture, we are very much aware of the importance of our investments abroad to the U.S. economy and to the strength of the dollar. In 1980, for example, U.S. investment income on direct investment abroad totaled $36.8 billion, more than offsetting our merchandise trade deficit of $25.3 billion. In addition, U.S. direct investments abroad provide a significant stimulus to U.S. trade and a major source for U.S. Corporate earnings and savings for the U.S. economy.

The CCEA review of U.S. investment policy will examine various forms of U.S. restrictions which unnecessarily hamper U.S. corporations' activities overseas, and in the process reduce U.S. exports. The review will also attach a high priority to the study of restrictions placed by foreign governments on investments by U.S. businesses abroad, and on appropriate U.S. responses. Investment incentives and performance requirements are particularly pernicious measures, through which countries attempt to tilt the economic benefits of individual investments in their favor. These measures distort both capital and trade flows, and have become increasingly burdensome to the operation of multinational corporations, and in particular U.S. firms. This Administration has expressed its concerns about these practices strongly in multilateral fora such as the OECD and the GATT. We have proposed that the OECD review measures of this type as a key issue on the international trade agenda for the 1980's. And we have discussed U.S. trade and investment concerns regarding such incentives and performance requirements in a number of bilateral consultations.

We are hopeful that we will be able to reach a satisfactory resolution of our immediate problems in this area. But we also recognize that future problems are inevitable with other nations, as well, unless we can make significant progress internationally toward establishing improved discipline over such government measures which potentially distort both investment and trade flows.

Banking and financial services

Another issue of major interest to the Treasury Department is the U.S. effort to increase international awareness of present barriers to trade in services and to develop a consensus for action to reduce them. Treasury has participated actively in interagency discussions of the strategy which the United States might pursue in seeking to reduce barriers of particular concern to U.S. firms, and has the lead in developing a strategy for banking, securities, and related financial services.

The Treasury has been working for several years to improve the conditions under which American banks operate in foreign countries. Consistent with the U.S. policy of "national treatment" for foreign banks, enunciated in the International Banking Act of 1978, our objective has been to secure equality of competitive opportunity for American banks in foreign countries. In 1979, the Treasury transmitted to Congress a comprehensive study entitled Foreign Government Treatment of U.S. Commercial Banking Organizations. This study concluded that American banks are generally able to operate effectively and profitably in most major markets of interest to them abroad. It did, however, identify a few countries where government restrictions prevent American banks from competing on equal terms. The U.S. government has encouraged these countries to liberalize the conditions under which they allow foreign banks to operate.

Both in international organizations such as the OECD and through bilateral discussions, the U.S. govenment has been working with countries that do not allow U.S. banks to compete on an equal basis to persuade them to liberalize their regulations. Although we are not yet satisfied and will continue to watch developments closely, we are pleased with the progress that has been achieved in two key countries:

Canada has recently repealed a restriction on the establishment by foreign banks of offices providing the full range of banking services. U.S. banks can now operate there on a more equal footing with domestic banks.

In Japan, a gradual liberalization of the financial system has resulted in U.S. banks being able to open new branch offices and to have greatly improved access to local sources of finance.

The trend toward more liberal treatment of foreign banks in such major industrial countries reflects the benefits accuring to the countries concerned, the banking community, and its customers through increased competition, new technology, and access to a wider range of banking services. Moreover, foreign governments are mindful that they cannot maintain restrictive banking environments at home without endangering free and open financial markets internationally.

In addition to the major industrial countries, developing countries represent an increasingly attractive market for U.S. banks, and the U.S. encourages them to remove restrictions on the ability of American banks to compete for local business. In some cases, progress toward more open financial markets is frustratingly slow; in others, foreign governments have recognized the advantages of developing a modern and sophisticated financial sector and have encouraged the entry of American banks. Restrictions on the activity of U.S. banks are, on the whole, more severe in developing countries than in developed countries, and we recognize the need for increased attention to developing countries' financial markets.

The Treasury has ongoing bilateral discussions with Finance Ministry and Central Bank officials aimed at obtaining greater liberalization and national treatment for U.S. banks and securities houses operating in major markets overseas. In this effort, we are in close and frequent contact with U.S. banks, financial institutions, and trade organizations. We also seek the views of U.S. regulatory agencies in this process. Some of the problems encountered are of a cross border type; others pertain to purely domestic market activities.

It remains to be seen to what degree—if any—these efforts and objectives can be fit into a more ambitious overall approach on services. Our own strongly held desire is to achieve national treatment—and this of course differs from country to country. It does not readily lend itself to harmonization, and is complicated by legitimate prudential considerations. I can assure you that our initiatives and objectives—whether pursued bilaterally, in the OECD committees on capital movements and financial markets to which we attach considerable importance, or in the context of even wider negotiations on services—will continue to reflect both the Congress as well as the U.S. Treasury's own deep desire to work toward national treatment for U.S. financial interests overseas.

CONCLUSION

The Secretary of the Treasury, as the Administration's chief economic official and chairman of the Cabinet Council on Economic Affairs, which is the channel for policy recommendations on economic policy to the President, maintains an active involvement in U.S. trade policy. This is essential to fulfill Treasury's responsiblities regarding the U.S. economy, the U.S. balance of payments, international monetary matters, and tax policy. It is also vital to ensure that our domestic and international economic policies are consistent and mutually supportive.

Treasury has a keen interest in the areas of export finance, investment, and financial services which I have addressed in my remarks today. They will be important items on our agenda for the 1980s, as we seek to improve international cooperation and to reduce government impediments to the free play of market forces.

Chairman GIBBONS. Thank you, Mr. Sprinkel.

I agree basically with what you have said. I find nothing in your statement as you reported it there that I disagree with as far as policy is concerned. I am afraid that one of the unintended victims of the present inflation and monetary policy that we are carrying on is going to be America's trade policy.

You pointed out, and I tried to point out, that our trade imbalances are going to grow rather substantially next year, particularly in the merchandise area, because of the monetary policy that we are now following with the I don't want to say overvalued dollar, but the very high valued dollar. It is going to make it very difficult for American exporters to export against that kind of dollar valuation.

Do you see the dollar valuation changing anytime in the near future?

Mr. SPRINKEL. The major cause, sir, in my opinion, that has resulted in a significant strengthening in the dollar over the last year, approximately 1 year now, has been a change in our policy mix designed to get our inflation down vis-a-vis the rest of the world.

Prior to that time, we were suffering an accelerating inflation vis-a-vis most nations, and hence you got a weak dollar.

We have moved to a policy designed both to encourage real growth for the longer run and get inflation down. Consequently, expectations have changed about the dollar.

Now, what about the period ahead? We have contrary forces that will be working. In 1980, relative interest rates part of the time accounted for the strengthening in the dollar in the latter part of the year. It has been less true in 1981—that is, the dollar has continued to strengthen—but there is no clear evidence that our interest rates vis-a-vis interest rates abroad have been the major cause.

It is my expectation, however, that as we move through the remainder of this year and into next year, there will be further significant decreases in interest rates reflecting the reduced inflation expectations, and I would expect that to have at least a temporary depressing effect upon the dollar vis-a-vis most currencies.

However, I do think that over the next few years we will show more progress on getting inflation down than many of our trading partners, and consequently I expect to see a firm dollar most of the time, even though we may get some temporary weaknesses in the months immediately ahead.

Chairman GIBBONS. I am worried about the interaction of our very tough monetary policy and our very relaxed fiscal policy that we have in this Government. It seems with the very large deficits that are projected in the near term, that more and more emphasis is going to be put on monetary policy.

Maybe I am not expressing that properly, but it seems to me that we are going to have very tough monetary policy for quite some time, while our fiscal policy is sort of relaxed. People are wringing their hands about our fiscal policy, but nobody is moving on fiscal policy.

It seems that we are carrying all of the burden of the fight on inflation in the monetary policy area. I would like to have your comments on that.

Mr. SPRINKEL. First, in the monetary policy area, there is agreement within this administration and with the Federal Reserve that the only way of getting inflation down for the long run is to have slow growth, slower growth in money than we have had over the last decade or so, and since April that in fact has occurred.

Now, that does not mean, however, that there is agreement in this administration that we will have high interest rate policies; in fact, exactly the opposite. To the extent we succeed in getting inflation down—and we are succeeding, and I expect more success next year—this will bring low interest rates, so in that sense it could be a very easy monetary policy as measured by interest rates, but a relatively firm policy as measured by monetary growth.

On the fiscal side, I think it depends on how you measure fiscal policy. I have the impression that this administration is pretty tough on the fiscal side. There is a lot of pressure from the administration on the Congress to get spending under control. There have been significant spending cuts. We are asking for further reductions in spending, and in that sense, I think we have a very tough fiscal stance.

The purpose, of course, is to permit resource shifts out of the Federal Government into the private sector in a relative sense. We are not talking about absolute cuts. We are talking about slowing the rate of rise.

There have been sizable tax cuts, and I am sure that is what you were referring to in terms of a relaxed fiscal policy.

Of course, the design of those tax cuts was very specific. At the margin they were designed to encourage incentives to save, which are absolutely critical if we are to bring about restoration in capital growth in this country; also, incentives to encourage the actual investment through the private sector of the market; and finally to encourage working at the margin by permitting the taxpayer to retain a higher percentage of his total income.

So, I see no inconsistency whatsoever between our fiscal stance designed to slow Government spending and to encourage savings, investment, and work and our monetary stance designed to get inflation under control.

Our long-range objective, as you know, is to beat inflation and to stimulate real growth, and these are the policies that I think are absolutely critical in order to achieve that.

Chairman **GIBBONS**. I can not argue with your philosophy. I am a little worried about where we are going to go on fiscal policy. I don't detect the same degree of urgency of cutting spending that I detected a few months ago, and I am not sure all of that tax cut that got out of here and was finally signed into law was really the kind of tax cut that would spur production.

I really have serious views about what we did for, say, royalty owners in the energy field. I look upon them as being as productive to the economy as the Medfly is to California fruit. I don't want to praise the fruit fly too highly, but those are just a couple of things that I had in mind.

Mr. Frenzel?

Mr. **FRENZEL**. Thank you, Mr. Chairman.

Thank you, Mr. Secretary, for your fine presentation. Like the chairman, I could not disagree with your general tone. You did mention some of the so-called export incentives both of our country and of our trading partners, and one of these—you talked about the recent two agreements on export financing, which of course were achieved outside of the GATT through the OECD mechanism.

We found that those kinds of agreements sometimes are not worth the paper the press releases are written on, and we also find that even when you put people in a firmer context in the GATT or somewhere else, that even there our trading partners are not terribly good about living up to some of their wildest promises.

With respect to your statement on page 10 about these agreements, how are you going to monitor the interest rates actually charged by our trading partners?

Mr. **SPRINKEL**. It is well-known, of course, the actual agreements—and I am quite confident that our business people who are attempting to export, if they find that they are being faced with a lower interest rate than was agreed, will certainly promptly let us know, and we would expect to follow through.

Now, there was great reluctance on the part of most foreign governments to achieve this particular change. We worked hard ever since getting into office to bring it about, so I think it will be monitored as time evolves and we see in fact what they do charge.

Mr. **FRENZEL**. I would agree. I find often the U.S. salesman involved is given to the same kind of hyperbole and sees always a more favorable rate. I don't know how you get the information on these matters.

Mr. **Sprinkel**. There are cable exchanges that occur on each of these particular products, so I feel very confident that we will know if a violation occurs.

Mr. **Frenzel**. But there is nothing in the agreement that was struck that gives us access to information on these deals from the governments of our trading partners, is there?

Mr. **Sprinkel**. Nothing special that I am aware of. We have a cable exchange with the governments so that we will get, unless they send the wrong cable, information as to what subsidy they are providing on their exports.

So I don't think that will be a problem. We will have to see.

Chairman **Gibbons**. I hope you are right.

Mr. **Frenzel**. Words are not enough. I agree with you.

Mr. **Sprinkel**. Words are not enough. We have to follow through and make sure they stick with the agreement. As interest rates come down, that will help.

We will get closer and closer to market rates. Of course, we will take another look next spring. If there is still a wide variation, we will do our best to get those rates up close to the market rate. Hopefully the market will come down in the meantime.

Mr. **Frenzel**. Thank you. I hope they will be close to that and I hope we will get the cooperation you suggest from those governments. With respect to another objective, we offer as incentive the Domestic International Sales Corporation. That, in my judgment, is a rather feeble export incentive compared to the remission of border taxes, excise taxes, VAT's and some of the other incentives given by our trading partners.

I take it from your statement that you are not terribly interested in increasing export incentives, and I wonder why, at what point might we make them competitive with most of our principal competitors in international markets.

Mr. **Sprinkel**. Of course, we are trying to clear the air concerning DISC. There has been some concern we would have to, in essence, eliminate DISC and we would have no replacement.

There is a meeting being held, I believe today, which should give us a little better information as to how it is going to be treated.

We think that it will be some time, at best, before it will be necessary to get rid of them. In the meantime, if we, in addition to DISC, lay additional subsidies on our exports, I am quite certain that it will lead to retaliatory action abroad.

I would much prefer to work in the opposite direction, that is, try to both reduce their export subsidies as well as our own.

Mr. **Frenzel**. Well, I agree with you that it is nice to have the pressure against DISC relieved, at least we believe that might happen.

On the other hand, I am relieved that at least with pressures on, we might have looked at DISC and made it a real incentive instead of a prize we give at the end of the year to those who would have exported anyway.

Again, however, it doesn't seem to me to be doing us much good in our export enhancement programs to simply say we are not going to do anything but talk to our trading partners.

They are not going to change their tax system. And I think our people are at a distinct disadvantage and I don't, for instance, see that the EC will agree to stop permitting the VAT at the border or excise taxes at the border.

It seems that is a pretty distant goal for our negotiating team.

Mr. SPRINKEL. We will give consideration, we are considering alternatives, if it becomes necessary, to eliminate DISC at some point into the future.

Mr. FRENZEL. I guess what I am getting at is the $64 question. We negotiated rules so that we try to keep things on a relatively even keel.

But now we are at the point where your trade relationships are probably more affected by taxes than almost any other factor, and it is outside the realm of those normally charged with handling trade policy.

That is why I mentioned the DISC to you. We have often thought on this committee that it would be wise for the United States to enter into some kind of international negotiation to develop a tax treaty that would tend to make international systems more neutral with respect to trade.

Do you have any plans or do you have any thoughts about such discussions?

Mr. SPRINKEL. I am not aware of any attempt to get closer synchronization between the various tax systems of the nations. It is very difficult to get the kind of tax system you want in this country, and to imagine trying to get the kind of tax system that you might want in some foreign countries boggles my mind.

It might be worthwhile but I wouldn't expect an early payoff.

Mr. FRENZEL. Thank you very much. With respect to your testimony on page 15 about liberalization of the authorities granted to U.S. banks in Japan, it is sometimes my impression that our banks aren't looking for all those authorities that our country would like to establish for them abroad.

Was this the case in Japan?

Mr. SPRINKEL. Well, yes, they were looking for it. That is, they were prevented from achieving it. They will look for it when they think there is a chance for profit. There certainly was a chance for profit in the Japanese situation.

Mr. FRENZEL. Are our banks now, under the new agreement, able to act as what we might consider full-service banks in Japan?

Mr. SPRINKEL. I am not sure they are full service. I will check that and be glad to provide the information to you.

Mr. FRENZEL. My understanding is that they are not taking deposits from individuals in Japan, is that correct?

Mr. SPRINKEL. They are taking deposits from individuals.

Mr. FRENZEL. Can you tell me since when they are doing that?

Mr. SPRINKEL. We will find out for the record. We do not know the exact date.

[The information follows:]

THE UNDER SECRETARY OF THE TREASURY
FOR MONETARY AFFAIRS,
Washington, D.C., November 25, 1981.

Hon. SAM M. GIBBONS,
House of Representatives,
Washington, D.C.

DEAR MR. GIBBONS. When I was testifying before your subcommittee recently you asked whether branches of American banks in Japan could provide the full range of banking services to their Japanese customers. The Japanese financial system is, of course, rather different from our own, but as a practical matter branches of American banks can offer all the usual commercial banking services to their customers, Japanese and foreign. The activities in which branches of American banks can engage are, moreover, essentially the same as those permitted for city banks, the category of Japanese banks most closely resembling foreign bank branches.

Specifically, branches of American banks are allowed to accept deposits from Japanese residents, both individuals and corporations, in yen as well as foreign currencies. Previously foreign banks wishing to establish branches in Japan had been required to submit letters promising not to solicit local deposits, but the Japanese authorities released the banks from this commitment in 1979. In addition, foreign banks, together with domestic banks, were allowed, starting on March 30, 1979, to issue certificates of deposit in minimum denominations of 500 million yen (i.e., roughly $2.5 million).

I hope this responds to the subcommittee's interest in this area, but if there is any other information that would be useful to you, we would be pleased to provide it.

Sincerely,

BERYL W. SPRINKEL.

Mr. FRENZEL. Thank you very much, Mr. Secretary. Thank you for your testimony.

Chairman GIBBONS. It was our impression when we were in Japan in September, there was some restraint upon them accepting deposits from individuals. I don't know what the nature of the restraint was. We didn't go into that.

I also got a general impression, let me start off by saying I am not an expert in banking, but as far as trade is concerned, the Japanese seem to have a much better, or I should say just for industrial production, a much better banking system than we do.

I don't know whether that is a fair appraisal of our banking system or of theirs, but I was impressed with the way the Japanese system seems to interact with its industry better than our system interacts with industry.

Do you have any observations on that?

Mr. SPRINKEL. Well, the big difference, of course, is the savings flows that go into these institutions in Japan that don't go into ours. We have a very low savings flow in the United States, which we are trying to change whereas they have extremely high savings.

Chairman GIBBONS. Why do they have a high savings flow and we don't?

Mr. SPRINKEL. Well, it has partly to do with taxes. They have very substantial tax breaks, each person, as we are now beginning to get into our law.

In addition to that, in modern times, they have done a better job of keeping their inflation under control than we have, since 1974 at least.

Their overall economic growth, consequently, has benefited from this savings flow. Over and above that, I think it is fair to say their retirement benefits are not as large as typically is true here in the United States, so that there is pressure on individual families to save that does not have quite the same pressure in the United States.

Whatever the reason, they have done a marvelous job in generating savings and also developing institutions that can transmit those savings into investments which improve their productivity.

Chairman GIBBONS. That seems to be the very obvious result over there. One reason we can't compete is we just do not have either the savings right or the banking system they seem to enjoy and really exploit.

I assume the administration is working on some plans to try to improve both of those—savings rates and banking systems.

Mr. SPRINKEL. We have extensive plans, as Secretary Regan has indicated, in terms of trying to deregulate the financial industry, including the banking industry so that they can provide a wider range of services and greater choice for the American people.

Chairman GIBBONS. One of the things that worries me about all of this is that apparently one of the areas that is going to dry up and almost vanish in our society now is the institution we have come to rely upon for providing homes.

I know there can be a lot of criticism of the home industry. Perhaps we have overindulged in it. I don't know. Certainly some of us have overindulged in it.

But I see a social, political problem emerging that the newer generation has a tough time getting shelter. And I am hoping that the administration will have some suggestion about that.

But I know in Japan at the same time you can apparently obtain financing for homes at around an 8-percent interest rate.

Have you looked at that, how they do that?

Mr. SPRINKEL. Yes, sir. The first they do is keep their inflation down, not only Japan, but other nations that have low inflation rates or low rates of interest.

Frequently those funds are provided by the company they actually work for. Our program, of course, is designed to achieve just that.

The two things that have made it very difficult for young people, or older people for that matter, to afford homes in recent time have been the rapid increase in the costs of homes which always rise rapidly in a period of accelerated inflation, and second, the very high rate of interest that you must pay if you are going to borrow money to buy that home.

Now our policies are designed to stop both of those trends. That is, real assets will not rise sharply, and that includes homes, in a period when we are moving toward price stability.

And interest rates, instead of going up, are going to be going down. So at the moment, they are extremely high, and home prices haven't really come down, but they are not going up at the rate that was true over the past decade.

Chairman GIBBONS. Are we going to have anything in our society that will replace the role that the savings and loan has played in homeownership?

Mr. SPRINKEL. I expect the savings and loan industry to come back quite strongly as we move into the positive yield curve, which is now developing.

They, of course, have great difficulty functioning in a market where they are paying more for money than they are earning on assets.

That is essentially what their problem has been. They are still running a loss in most cases.

As short-term rates come down—and they are coming down more quickly than longer-term rates, although they will both be coming down and we will move back to a normal yield spread between short- and long-term rates—I think we will see a regeneration in our savings and loan business; plus, of course, there are efforts on the part of this administration, the Congress, to broaden the asset powers in those institutions and also to free them up on the liability side to compete.

So I haven't given up on that industry. It has served us for many decades and I think it will serve us in the decades ahead.

Chairman GIBBONS. We read in the press, and to some extent, they are self-fulfilling prophesies when we read them, about the large deficits that are facing this country as we go down the road.

What observations have you got to make about that? Large fiscal deficits I am talking about.

Mr. SPRINKEL. It will be very difficult over the next few years to achieve the balanced budget. It is going to depend on cooperative efforts between the administration and the Congress, designed to keep the pressure on spending downward, to avoid major new initiatives, to attempt to cut back in areas where we have programs going.

Deficits are not a good thing. I wish we would have inherited a balanced budget. Unfortunately, we didn't. They create at least one of two kinds of problems, and we must be very aware of the risk of those deficits.

One is that it tends to put some pressure on the central bank, Federal Reserve in our case, to create extra money, in which case we are backing inflation and high interest rates if that were to occur with a rapid increase in the money supply.

This administration has stated on numerous occasions that we do not want the Federal Reserve financing our deficit with a massive increase in money.

But just because we avoid an improper monetary policy doesn't mean the deficits are costless. They are still costly because they absorb savings that are being voluntarily generated by the American public.

If you use the savings to finance the deficit, you can't use the savings to encourage capital formation, which is the objective of our economic program. So that either way, it is desirable to get them down.

Now, it is not desirable to get them down under all conditions. That is, it would make no sense in my judgment for the Congress to go back and undo the tax program that they have designed to encourage the proper supply-side response, so we are not willing to go back on that particular approach.

But it is important to keep the pressure on spending under control so that we can work toward a smaller deficit.

Chairman GIBBONS. I want to applaud what I think is an emerging effort by the administration to make some sense out of loan guarantees that four administrations have just wrecklessly helped scatter around the landscape.

I realize they are playing havoc with our credit markets and making it very difficult to have decent fiscal policy as well as decent monetary policy.

I hope that you all will move very vigorously. It is an area I don't think the average person understands that the Federal Financing Bank is really the Treasury and that the money that the Federal Financing Bank has has to be borrowed on the open market.

When we allocate credit, we really are allocating spending. It is an area that is vastly misunderstood and vastly abused in my estimation.

Anything that you all can do to help in that area will be greatly appreciated.

Mr. SPRINKEL. I share your views completely. We are working very closely with OMB and with the Congress to try to reduce the financing that is required off budget. Also to reduce the level of guaranteed programs.

We can't go to zero, but with the aid of the Congress, working on some of the programs and some direct action the President will be taking, we expect to make some progress in this year ahead.

Chairman GIBBONS. Mr. Frenzel.

Mr. FRENZEL. Mr. Secretary, in your discussions with Mr. Gibbons, you indicated that Japan was able to have a better set of interest rates because of its high rate of personal savings.

I know now that the two countries that have done the best job, Japan and Germany, have the major economies in holding back inflation, both now are tangling with massive deficits.

In the case of the Federal Republic, those are recurring massive deficits. Now, despite the fact that they do a better job of financing those deficits through personal savings, does not the presence of those deficits mean that they are going to encounter the same kind of problems that we have encountered?

That is, the savings, instead of being devoted to capital accumulation or investment, are simply going to be eroded by the financing of governmental deficit programs?

Mr. SPRINKEL. It's been true for quite some time, for several years, that both Japan and Germany were running very sizable deficits as a percent of their GNP or however you might want to measure it.

Despite that, the flow of savings has been sufficient to keep their economy moving somewhat better than our own.

They would have done even better yet if it hadn't been necessary to utilize a substantial portion of these savings to finance the deficit. In our case, we believe the savings flows will be substantially augmented as a result of our programs and, therefore, provide some help in financing our deficit.

But it would be even better if we didn't have a deficit.

Mr. FRENZEL. Was that part of our problem in negotiating the export finance agreement with the Japanese, that they had a much lower real cost of interest than we did?

Mr. **Sprinkel**. Yes, they felt that they should not be unduly penalized because they have done a good job of keeping their inflation down.

Mr. **Frenzel**. I am inclined to agree.

Mr. **Sprinkel**. I am inclined to agree with that point of view as well. I hope we are in the same lot soon.

Mr. **Frenzel**. We ought to strike a medal in their honor. Thank you very much, Mr. Secretary.

Chairman **Gibbons**. Mr. Sprinkel, we appreciate so much your coming and your fine testimony. Let me announce for administrative procedure here, we will hear the Export Control Policy and Administration panel, then take a short break for lunch and come back.

All right, our first witness is Mr. Lawrence Brady, Assistant Secretary for Trade Administration, the Department of Commerce.

Mr. Brady, you may proceed as you wish.

STATEMENT OF LAWRENCE J. BRADY, ASSISTANT SECRETARY FOR TRADE ADMINISTRATION, DEPARTMENT OF COMMERCE; ACCOMPANIED BY RICHARD A. SMITH, ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, DEPARTMENT OF AGRICULTURE; HARRY KOPP, DEPUTY ASSISTANT SECRETARY FOR TRADE AND COMMERCIAL AFFAIRS, DEPARTMENT OF STATE; AND DR. STEPHEN BRYEN, DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL ECONOMICS, TRADE, AND SECURITY POLICY, DEPARTMENT OF DEFENSE

Mr. **Brady**. Thank you, Mr. Chairman. On my left is Mr. Smith, Administrator of the Foreign Agricultural Service. On my right, Harry Kopp, Deputy Assistant Secretary for Trade and Commercial Affairs at the Department of State.

And to his right, Dr. Stephen Bryen, Deputy Assistant Secretary for International Economics, Trade and Security Policy at the Department of Defense.

Mr. Chairman, we appreciate very much the opportunity to bring the subcommittee up to date on the administration's export control policy and its export licensing program.

An administration statement on this subject has been submitted for the record. I only wish to summarize it very briefly and then the panel and I will respond to the subcommittee's questions.

The focus of my comments will be U.S. export control policy toward the Soviet Union, since that country poses the greatest potential threat to western security. I will, however, briefly touch on export trade policy toward Eastern Europe and the People's Republic of China [PRC].

The control of exports to communist nations began during the cold war period. The Export Control Act of 1949 prohibited the export of any item which threatened U.S. national security.

Over the past 30 years, subsequent acts modified the export control program. This was due in part to changing U.S. perceptions of its national security needs and in part to encourage East-West trade as part of an overall strategy for dealing with the Soviet Union.

This trend culminated in the decade of détente, 1970–80.

During the past decade, the U.S. Government supported increased trade with the Soviet Union on the assumption that expanded commercial relations would encourage the Soviet Union to moderate its behavior, both within the international community and within its own system. Important perceived commercial benefits for U.S. firms also played a part in such a policy. The U.S. Government further relaxed national security export controls on goods to the Warsaw Pact countries.

In reviewing how increased trade with the Warsaw Pact nations has affected the strategic balance and our collective security interest with our allies, we see that our trade and economic ties over the past decade with the Soviet Union have not tempered the basic aggressive nature of Soviet foreign policy.

The Soviet invasion of Afghanistan, carried out in part with vehicles produced in factories that had been provided with Western technologies and equipment, was a clear reminder of Soviet intent to use trade with the West for strengthening its military capabilities.

The transfer of dual-use technology, financed by Western credits, has played an important role in giving the Warsaw Pact countries the production and technical know-how to modernize their military-industrial base.

These transfers supported the successful Soviet effort to achieve strategic parity with the United States by the late 1970's. At the same time, increased commercial links between the East and West failed to moderate the international adventurism of the Soviet Union and the other Warsaw Pact nations.

Moreover, expanded trade between the U.S.S.R. and Western Europe has significantly increased western European reliance on the Soviet Union, both as a supplier of raw materials, especially energy, and as a purchaser of Europe's industrial exports.

The Soviet market has become especially important to certain depressed sectors of European industry, such as steel.

While the Soviets need Western equipment and technology, the Europeans have come to increasingly rely on the Soviet market.

A high priority for the Reagan administration is to establish a consistent and predictable East-West trade policy. In the past, because there were no clear policy guidelines, licensing decisions were often made on an ad hoc basis.

In addition, the lack of clear policy caused lengthy delays in the processing of export licenses; a large number of cases were pending beyond deadlines set by law for their resolution.

The business community was, justifiably, upset. We have now undertaken a fundamental review of our entire export control policy.

As an initial step in the review process, the administration liberalized sales of items to the People's Republic of China at significantly higher technology levels than before.

Our export control policies toward China are being implemented in a manner consistent with our strategic interests and this administration's commitment to ease the regulatory burden on American business.

Although all aspects of the policy review had not yet been completed, the administration intends to tighten controls over exports of high technology (process know-how, including technical information) and critical equipment which upgrade Soviet production in areas relevant to its defense industries and military capabilities.

Consistent with this tightening of controls on high technologies, we intend to decontrol some products at lower technology levels. The purpose in pursuing this approach is to avoid interference with legitimate nonstrategic trade without jeopardizing our national security interests, and the business community understands that.

Just as we are taking action in our country, we believe that western nations must collectively take steps to reduce the flow of strategic technology to the U.S.S.R. if excessive future increases in our defense budgets are to be avoided.

Last July at the Ottawa summit, President Reagan appealed personally to his counterparts over the need to improve and strengthen the present multilateral system of trade controls on strategic technologies and goods to the Soviet Union.

The leaders agreed to high-level consultations on the current multilateral system of controls. The Coordinating Committee on East-West Trade [Cocom] is now preparing for the first such meeting.

With the United States taking the lead, officials from the Departments of Commerce, State, Energy, and Defense in recent weeks have been working with our allies on a bilateral basis to begin looking at ways to improve the international security controls system, including the harmonization of national licensing procedures and expanded international enforcement efforts.

While seeking to strengthen international security controls, the administration is taking into account the understandable reaction of the U.S. business community to export controls. U.S. companies support the administration in according priority to national security concerns. They also want a consistent and predictable licensing policy, which the current policy review addresses.

Foreign policy controls are viewed less favorably by the business community, since they sometimes are promulgated as a result of an international event which are consequently not foreseeable.

They are generally instituted by the U.S. Government and apply only to U.S. exports. One purpose of the policy review will be to consider how to more effectively coordinate U.S. foreign policy controls with the export control policies of our allies.

We do not wish to disadvantage U.S. business through our trade policies with the East.

Over 75,000 applications were processed last year by the Department of Commerce's Office of Export Administration, which exercises control over exports of technology and goods under authority of the Export Administration Act of 1979.

OEA's processing of export license applications represents a large and steadily increasing workload which has been growing in volume and in complexity.

The nature of applications reflects the shifting composition of U.S. exports toward high-technology areas.

Applications require more sophisticated technical analysis by both Commerce and its advisory agencies and raise ever more difficult export policy issues.

With clearer policy guidelines, such as the policy toward the People's Republic of China, and improved management methods, this administration has reduced substantially, as the Secretary indicated a short while ago, the backlog of approximately 2,000 outstanding cases it inherited last January which were pending beyond the statutory deadlines.

This administration has also revived the interagency review process for sensitive or complicated cases to insure that they are acted on within statutory deadlines.

If licensing decisions cannot be reached at the working level, they are to be immediately referred to higher authority for decision. This administration will not condone any case backlog.

Administration of the licensing program will be impartial, timely and fair.

Formal interagency consultations on export control matters are conducted through a committee review structure known as the Advisory Committee on Export Policy [ACEP]. An Operating Committee, comprised of staff level officials, reviews and disposes of most of the cases.

If the Operating Committee cannot reach agreement, the case may be successively escalated to the deputy assistant secretary [DAS] level committee known as the "Sub-ACEP," and the assistant secretary level group [ACEP] which I chair.

Disagreement at the policy level may be referred to the cabinet-level Export Administration Review Board, chaired by the Secretary of Commerce.

This board meets to consider particular export license matters involving questions of policy. The Secretaries of State and Defense, in addition to the Secretary of Commerce, are the only designated members, but others may be invited, depending upon the issue.

In order for export controls to be effective, an enforcement program is necessary to identify and investigate violations of the act.

The Compliance Division of OEA has this responsibility. The statute authorizes both criminal and administrative sanctions to be imposed for violations.

In fiscal year 1981, the Compliance Division vigorously pursued violators, which resulted in the seizure of 128 illegal shipments. This is double the number seized in fiscal year 1980 and more than six times greater than the number seized in fiscal year 1978.

We have increased the number of inspectors and will soon open two new offices in California to provide additional support in an area that has a heavy concentration of high technology industries.

We will continue to increase our export law enforcement capability and seek tougher civil and criminal penalties for offenders.

Identifying critical technology has become one of the most important elements of export controls. It is also one of the more complex and difficult elements, given the rapid technological advances in many fields and the increasing numbers of countries entering the high technology market.

The Export Administration Act directs the Secretary of Defense to develop a military critical technologies list [MCTL] to cover technology which is critical to the production of U.S. weapons, or which increases Soviet military capabilities.

The first draft was completed in October 1980 and the Department of Defense received comments on it from the business community. The Department of Defense is refining its initial list. When completed, it will be transmitted to the Secretary of Commerce.

In conclusion, Mr. Chairman, this administration believes that the export licensing system can be operated efficiently giving the business community prompt answers without jeopardizing our overall security and foreign policy interests.

We believe we have already made considerable progress toward assuring that decisions in the export control field are made quickly and consistently.

Much more remains to be done. I wish to assure the subcommittee that this administration will achieve an equitable balance between our economic interests and our foreign policy and national security interests.

[The prepared statement follows:]

STATEMENT OF LAWRENCE J. BRADY, ASSISTANT SECRETARY FOR TRADE ADMINISTRATION, DEPARTMENT OF COMMERCE

Mr. Chairman, I appreciate the opportunity to appear here today to bring the subcommittee up to date on the Administration's export control policy and its export licensing program.

When this Administration took office, we inherited an East-West trade policy that, at best, was characterized by confusion, and ad-hoc decision-making. It displayed a failure to adequately protect U.S. strategic and national security interests. Not only were there problems on the policy side. Bottlenecks in the export licensing system also placed unnecessary obstacles before American businessmen who wish to compete in overseas markets.

I can assure you this Administration is committed to solving these longstanding problems. In that regard, I will discuss with you the steps we are taking to improve the export licensing program.

EXPORT CONTROL POLICY

The focus of this statement will be U.S. export control policy toward the Soviet Union, since that country poses the greatest potential threat to Western security. I will however, briefly touch on export trade policy toward Eastern Europe and the People's Republic of China (PRC).

The control of exports to communist nations began during the Cold War period. The Export Control Act of 1949 prohibited the export of any item which threatened U.S. national security. The Battle Act (Mutual Defense Assistance Control Act of 1951) denied U.S. aid to any nation which permitted the export of strategic materials to communist countries. During the next 30 years, subsequent Acts modified the export control program. This was due in part to changing U.S. perceptions of its national security needs and in part to encourage East-West trade as part of an overall strategy for dealing with the Soviet Union. This trend culminated in the decade of detente, 1970–80.

During the past decade, especially, the United States Government supported increased trade with the Soviet Union on the assumption that increased commercial relations would encourage the Soviet Union to moderate its behavior, both within the international family of nations and within its own system. Important perceived commercial benefits for U.S. firms also obviously played a part in such a policy. The U.S. Government also relaxed national security export controls on goods to the Warsaw Pact countries beyond what it had been in previous decades. During the 1970's, U.S. exports to six East European countries rose from $220 million in 1971 to $1.3 billion in 1975, and to $2.4 billion in 1980. Our policy of making a distinction in trading policy between the Soviet Union and Eastern European countries has allowed us to provide more favorable treatment to those countries displaying a degree of political or economic independence from the U.S.S.R. These economic relations have become a key component of our improved bilateral relationship with some of those countries. Exports to the U.S.S.R. increased from $160 million in 1971 ($118 million in manufactured goods) to $1.8 billion in 1975 ($670 million in manufactured goods) and $1.5 billion in 1980 ($424 million in manufactured goods). The peak was reached in 1979 when total U.S. exports was $3.6 billion—$657 million in manufactured goods.

Although much of this increased trade with the U.S.S.R. and Eastern Europe was attributed to the sale of agriculture commodities, relaxation of export controls was an important contributory factor.

U.S. trade with the PRC also increased with the normalization of U.S.-China relations. During the last half of the 1970's, exports surged from $304 million in 1975 to $3.7 billion in 1980 (1979 figure was $1.7 billion). Agricultural exports accounted for most of this growth.

The United States and the allies must now review how increased trade with the Warsaw Pact nations has affected the strategic balance and our collective security interest.

REEVALUATING EAST-WEST TRADE POLICY

The Soviet trade and economic ties with the West have not tempered the basic aggressive nature of Soviet foreign policy. The Soviet invasion of Afghanistan, carried out in part with vehicles produced in factories made possible with Western technologies and equipment, was a clear reminder of Soviet intent to use trade with the West for strengthening its military capabilities. The transfer of dual-use technology, financed by Western credits has played an important role in giving the Warsaw Pact countries the production and technical know-how to modernize their military-industrial base. These transfers supported the successful Soviet effort to achieve strategic parity with the United States by the late 1970's. At the same time, increased commercial links between the East and West failed to moderate the international adventurism of the Soviet Union and the other Warsaw Pact nations.

Moreover, expanded trade between the U.S.S.R. and Western Europe has significantly increased Western European reliance on the Soviet Union, both as a supplier of raw materials, especially energy, and as a purchaser of Europe's industrial exports. The Soviet market has become especially important to certain depressed sectors of European industry, such as steel. While exports account for about one-third of total West German steel sales and over 40 percent of their machine tool sales, Moscow purchases about 11 percent from each of these sectors. For certain product groups within these sectors, the trade dependencies are substantially greater. For example, almost two-thirds of all wide-diameter steel pipe exported in 1979 went to the Soviet Union. So, while the Soviets need Western equipment and technology, the Europeans increasingly need the Soviet market for some of the output of their major industries.

EAST-WEST TRADE POLICY REVIEW

A high priority for the Reagan Administration is to establish a consistent and predictable East-West trade policy. In the past, because there were no clear policy guidelines, licensing decisions were often made on an ad hoc basis. In addition, the lack of clear policy caused lengthy delays in the processing of export licenses; a large number of cases were pending beyond deadlines set by law for their resolution. The business community was, justifiably, upset.

As an initial step in the policy review process, the Administration conducted a review of our export control policy toward the PRC. The review was conducted with an understanding that the PRC is considered a non-hostile nation whose political, social and economic philosophy differs from ours, but which is not engaged in anti-Western expansionism.

In July, the Department of Commerce announced a new, more liberal export policy toward the PRC, designed to permit the approval of exports which embody a significantly higher level of technology than what had been previously licensed. This policy toward China will be implemented in a manner consistent with our strategic interests and with this Administration's commitment to easing the regulatory burden on American business.

Sales above the permitted technological levels will be reviewed individually, taking into account our national security interests. The review of individual cases is being expedited by other agencies, giving the Department of Commerce a much broader range of discretion in deciding export license applications to China without the need for interagency review.

In early May, the Administration began a policy review of other issues involved in East-West trade. Issues included in the review were:

(a) National security controls toward the Soviet Union; (b) foreign policy controls on oil and gas equipment to the Soviet Union; (c) proposed construction of a 3,000-

mile natural gas pipeline from Siberia to Western Europe; (d) export control policy toward East European countries; and (e) foreign policy controls for countries other than the Soviet Union.

Although all aspects of the policy review have not been completed, the Administration intends to tighten controls over exports of high technology (process know-how including technical information) and certain critical equipment which could upgrade Soviet production in areas relevant to its defense industries and military capabilities. In effect, the policy will tighten strategic trade controls. Consistent with this tightening of controls at the top of the technology spectrum, we intend to decontrol some products at the lower end. This will permit concentration of attention—both domestic and international—in the export control area on license applications with the broadest security implications, i.e. high technology items. The Administration's principal purpose in pursuing such a policy is not to interfere with legitimate non-strategic trade with the Soviet Union. Instead it is to better manage and facilitate the flow of trade without jeopardizing our national security interests.

Considerable evidence exists that over the past ten years Western origin technology and equipment have made substantial direct and indirect contributions to the growth of Soviet military capabilities. Just as we are taking action in our country, we believe that Western nations must take steps to reduce the flow of strategic technology to the U.S.S.R. if excessive future increases in our defense budget are to be avoided.

President Reagan, at the Ottawa Summit meeting in July, appealed personally to his counterparts offer the need to improve and strengthen the present multilateral system of trade controls on strategic technologies and goods to the Soviet Union. The leaders agreed to high-level consultations on the current multilateral system of controls. The Coordinating Committee on East-West Trade (COCOM)[1] is now preparing for the first such meeting in the next few weeks. With the United States taking the lead, officials from the Departments of Commerce, State, Energy and Defense in recent weeks have been meeting with our allies on a bilateral basis to begin looking at ways to improve the international security control system, including closer harmony of national licensing procedures, and expanded international enforcement efforts.

At Ottawa, the President also expressed to the allies his serious concerns on the proposed Siberia to West European pipeline. The Summit participants agreed to listen later this fall to a U.S. presentation of energy alternatives to the pipeline and to an assessment of the economic and security implications if the pipeline were completed.

BUSINESS CONCERNS

While seeking to strengthen international security controls, the administration is taking into account the understandable reaction of the U.S. business community to export controls. Certainly few, if any, in the United States object to the basic concept of national security export controls, although there is often strong disagreement about which items are truly of strategic importance. U.S. companies support the Administration in according priority to national security concerns. They also want a consistent and predictable licensing policy which current policy review is addressing.

Foreign policy controls are viewed less favorably by the business community, since they sometimes are promulgated as a result of an international event and are consequently not forseeable. They are generally instituted by the U.S. Government and apply only to U.S. exports. Businessmen are skeptical of the effectiveness of such controls as a foreign policy tool, although they were most recently invoked by former President Carter following the Soviet invasion of Afghanistan. From their perspective, unilateral controls on manufactured U.S. equipment are bound to have but one result: lose of business opportunities to U.S. manufacturers. In the past, our allies have complained that we have used foreign policy controls arbitrarily and without prior notice to them. One purpose of the policy review will be to consider how to more effectively coordinate U.S. foreign policy controls with export control policies of our allies. We do not wish to disadvantage U.S. business through our trade policies with the East.

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[1] COCOM was formed in 1949. Its members include Japan and the NATO countries, except Iceland. COCOM is an informal, deliberative body with nor formal treaty or charter. It is not a part of any other organization. It provides a forum whereby trade control decisions are reached which can be applied consistently by participating countries.

LICENSING ADMINISTRATION

Over 75,000 applications were processed last year by Commerce's Office of Export Administration (OEA), which exercises control over exports of technology (technical data) and goods, under authority of the Export Administratiohn Act (EAA) of 1979. Controls are instituted to:

Protect the U.S. national security; further significantly the foreign policy; and protect U.S. domestic economy from the excessive drain of scarce materials and to reduce the inflationary impact of foreign demand.

With respect to national security controls, commerce has jurisdiction over dual-use items, those with potential military application as well as commercial uses. Most items that have only military application or are specifically designed for military use appear on the U.S. Munitions List, which is administered by the State Department.

Dual-use items controlled by Commerce are listed in the Commodity Control List (CCL). Items such as high speed computers, related peripherals and software are, thus, contained in the CCL despite potential key military uses, because their predominant utilization is civilian. As you would expect, applications to export these high technology items to non-market economy destinations often raise technical and policy disagreements among interested agencies.

Only a small portion of U.S. exports require the issuance of a specific "validated" license document by OEA. By far the great majority of exports are shipped under "General License" authority which allows the exporter to ship freely without applying for a validated license. Commodities that do require a validated license, and which appear on the CCL, fall into three general categories.

1. Those items judged to have the potential of contributing significantly to the military capabilities of potential adversaries. Most of these items are controlled multilaterally; 2. Certain items which are controlled for foreign policy reasons; for example, oil and gas exploration equipment to the USSR, and crime control and detection equipment; and 3. Petroleum and related products that are controlled for short supply reasons.

OEA's processing of export license applications represents a large and steadily increasing workload which has been growing in volume and in complexity. The nature of applications reflects the shifting composition of U.S. exports toward high technology areas. Applications require more sophisticated technical analysis by both Commerce and its advisory agencies and raise ever more difficult export policy issues.

IMPROVEMENTS

With clearer policy guidelines such as the policy toward the PRC, and improved management methods, this Administration has reduced substantially the approximately 2,000 cases it inherited last January which were pending beyond the statutory deadlines.

A manual tracking system was instituted to provide an immediate vehicle to keep track of all cases in process in order to ensure that Commerce and the other agencies involved observe statutory deadlines. A computerized tracking system which will augment the manual tracking system is near completion. This Administration has also revived the interagency review process for sensitive or complicated cases to ensure that they are acted on within statutory deadlines. If licensing decisions cannot be reached at the working level, they are to be referred to higher authority for decision. This Administration will not condone any case backlog. Administration of the licensing program will be impartial, timely and fair.

DECISIONMAKING PROCESS

Applications to export to free world destinations are examined to identify those of a sufficiently routine nature to enable them to be approved and licensed immediately without further review (so-called "front door licensing"). Applications for communist country destinations and those of a non-routine nature to other countries are reviewed by technical licensing specialists for their dual use and technical sophistication. On applications controlled for national security reasons, the licensing specialist examines the application for the equipment's uses, its level of sophistication and normal pattern of military or civilian use. Also considered is the equipment's suitability for the proposed end-use, any known or suspected questionable activities by the end-user, and the possibility of diversion to unauthorized uses or to a third party.

Under the EAA of 1979, if the item is controlled for either national security or foreign policy reasons, the Department of Commerce must assess the availability of foreign goods and technology with respect to quantity and quality.

We have not, thus far, established an adequate mechanism to assess foreign availability on a continuing basis, but we are committed to doing a more thorough job in this area through better coordination with industry and other government agencies. Some excellent work has been accomplished in the oil and gas area by the latter means.

Foreign availability is analyzed by comparing the capabilities of proposed exports with any similar foreign equipment. Specifications for equipment produced abroad are generally available from foreign suppliers' catalogs and information provided by exporters and the intelligence community. The comparisons are usually based on functional equivalence. Information for foreign equipment concerning such factors as production quantities, reliability, ease of maintenance and operation and availability of spare parts is less readily available. These factors are critical components of any foreign availability assessment. Obtaining accurate information on the production capabilities in the communist countries also complicates the task of making foreign availability assessments in the national security field.

The technical licensing specialist often consults with experts from other agencies while making an analysis, and may decide a case solely on precedence.

The large majority of cases, however, are forwarded, along with the licensing specialist's analysis and recommendations, to Commerce's Policy Division where one of the three types of action is taken:

The case may be decided by Commerce upon the basis of previously agreed delegations of authority from other agencies.

It may be informally referred to one or more advisory agencies (usually the Departments of Defense and State). Other agencies, including the intelligence community, are consulted when appropriate. The Act states that defense may review any application for the export of goods or technology to any country to which exports are controlled for national security reasons.

Some cases raise such complex technical or policy issues that they require full interagency consideration.

Formal interagency consultations on export control matters is conducted through a committee review structure known as the Advisory Committee on Export Policy (ACEP). An Operating Committee comprised of staff level officials at the office director level, reviews and disposes of most cases. If the Operating Committee cannot reach agreement, the case may be successively escalated to the Deputy Assistant Director (DAS) level committee known as the "Sub-ACEP" and the Assistant Secretary level group, the ACEP. ACEP generally meets only when required to resolve disagreements among member agencies. Disagreement at the policy level may be referred to the cabinet-level Export Adminstration Review Board (EARB) chaired by the Secretary of Commerce. The EARB meets to consider particular export licenese matters involving questions of policy. The Secretary of Commerce is the designated Chairman of the EARB. Other members are the Secretaries of State and Defense. Others may be invited depending upon the issues.

Each of these interagency bodies are chaired by the Department of Commerce. They include representatives from State, Defense, Energy, and CIA, and as necessary may include other interested agencies, (e.g. ACDA, NASA, NSC, DOT). The Act provides for escalation of national security cases to the President should all other fora prove unsuccessful in reaching a decision. Foreign policy control cases can also be referred to the President in case of disagreement among the principal agencies.

After receiving the advice of the other agencies, the Commerce Department has 90 days within which to reconcile any differences among agencies and approve or deny an application. If an application is denied, the applicant must be notified within five days, giving the statutory basis for the denial, and the availability of appeal procedures.

An applicant may always discuss with the Commerce Department or its advisory groups any technical or policy problems the application may be encountering, and may revise the application during the process to improve the chances of approval.

Applicants receive a "negative consideration" letter before the application is denied, which specifies problems with the application and provides the applicant an opportunity to respond. In certain cases, applications are returned without action for further information or to obtain missing documentation. An applicant may appeal any denied application to the Assistant Secretary of Commerce for Trade Administration.

In order for the export controls to be effective, an enforcement program is necessary to identify and investigate violations fo the Act. The Compliance Division of OEA has this responsibility. The statute authorizes both criminal and administrative sanctions to be imposed for violations. In fiscal year 1981, the Compliance Division has vigorously pursued violators, seizing 128 illegal shipments. This is double the number seized in fiscal year 1980 and more than six times greater than the number seized in fiscal year 1978. We have increased the number of inspectors and will soon open two new offices (Los Angeles and San Francisco) to provide additional support in an area that has a heavy concentration of high techonolgy industries. We will continue to increase our export law enforcement capability and seek tougher civil and criminal penalties for offenders.

CRITICAL TECHNOLOGIES

Identifying critical technology has become one of the most important elements of export controls. It is also one of the more complex and difficult elements given the rapid technological advances in many fields and the increasing numbers of countries entering the high technology market.

The Export Administration Act directs the Secretary of Defense to develop a Military Critical Technologies List (MCTL) to cover technology which is critical to the production of U.S. weapons, or which increases Soviet military capabilities.

The first draft was completed in October 1980 and the Department of Defense received comments on it from the business community. The Department of Defense is refining its initial list. When completed, it will be transmitted to the Secretary of Commerce. The Commerce Department will then begin a process of consultations with business and with other agencies to develop a coordinated approach for identifying specific critical technologies which should be controlled. Once detailed specifications are prepared, proposals for strengthening the COCOM multilateral contols will be submitted and the CCL revised.

In an effort to involve the business community in the advisory process of identifying critical technology this Administration has revitalized several task forces to provide fora for discussion and interaction among the intelligence, government, and business communities. These fora are the six technical advisory committees (TACs) provided under the EAA. These committees review, inform and make recommendations on specific industry areas, such as computer systems, semiconductors, telecommunications, etc.

SUMMARY

This Administration believes that the export licensing system can operate rapidly and efficiently without jeopardizing our overall security and foreign policy interests. We believe considerable progress has already been made towards assuring that decisions in the export field are made quickly and consistently, although much remains to be done. This Administration will achieve an equitable balance between our economic interests and our foreign policy and national security interests.

Chairman **Gibbons**. Do other members of the panel have statements they would like to make at this time?

Mr. **Bryen**. No, Mr. Chairman.

Mr. **Kopp**. No, sir.

Chairman **Gibbons**. Mr. Brady, do all American exports have to be licensed?

Mr. **Brady**. Mr. Chairman, in fact, no. There is what we call a general license which simply means that when a firm fills out its export shippers declaration, it simply says general license.

Theoretically one could construe that as saying a license is required, but in fact, no prior approval, no Government consent is needed.

Only the high technology items require a validated license.

Chairman **Gibbons**. It's been a long time since I looked at the things included in the high-technology area.

When I did, it was years ago, I was shocked to see the number of things I didn't know were high technologies that were included in the list.

Has there been any improvement in getting rid of some of these items? How does the exporter know what is subject to license?

Mr. **Brady**. Mr. Chairman, let me answer the last part of your question first.

The exporter knows the requirements by getting a copy or going to a Commerce district office and looking at a copy of the commodity control list. It will indicate to him whether or not the commodity which he manufactures requires a license and, if so, for which countries a license is required, what kind of license, et cetera.

Second, your question regarding the composition of the COCOM commodity control list, that list is reviewed about every 3 years. It is reviewed with our allies.

Now I am discussing the national security portion of the list primarily. There is some concern at times that the list has what we would call technologies that are not state of the art in this country.

Frankly, that relates to the fact that the state-of-the-art development in a country, for instance, the Soviet Union, is not nearly equivalent to ours and we want to retain the leadtime.

We try, in the best possible way, to keep the list at a fairly high technological level. The review which this administration began 4 or 5 months ago has as its objective, as a matter of fact, controlling technology, design, production, manufacturing technology which is more critical in terms of preventing it from being acquired by the Soviet Union than is a particular product of that technology.

We hope to be able to decontrol, as a matter of fact, the lower end of the technology spectrum.

The microelectronics area, Mr. Chairman, is critical to the Soviet's defense effort, and we have to prevent them from acquiring that design-manufacturing capability.

Chairman **Gibbons**. Why couldn't you just limit it to things like that instead of scattering it all over the technology. It seems to me what you are saying is that you are not going to allow any firm to export anything that is not at the low level of Soviet technology.

Mr. **Brady**. No, Mr. Chairman, we are going to do precisely what you are recommending. I wouldn't want to leave the impression, however, that we are now controlling items that are not technologically important to the Soviet Union. I might point out—and perhaps the Department of Defense representative would like to add to this—when we embark on a new weapons system, for instance, we incorporate technology in that new weapons system which is state of the art at the time that we make the decision. But it takes 5, 7, 8, 9 years for that weapons system to come on stream and by the time it does, that technology may have been superseded. There may have been developments which would undermine the legitimacy of that technology in a particular weapons system. Therefore that accounts for some of the disparity in the list that you are mentioning.

Mr. **Bryen**. I might pick up on that, Mr. Chairman, in this regard. We haven't been doing our best in the past, as you know, to upgrade our own defense structure. There is a long leadtime involved. At the same time the Soviets have been acquiring civilian Western technology and incorporating it into their weapons systems. Sometimes the civilian technologies are more advanced than what we actually have in our defense systems, so it does present a considerable problem for us. Larry Brady identified one of the key areas, which is microelectronics, where we think the leadtime we have is only 2 or 3 years.

I brought along to show you a Soviet product that comes out of a system that was retrieved off the coast of North Carolina. It represents American state of the art of about 1974 and this circuit board was manufactured in the Soviet Union in 1978, showing about a 4-year difference. We don't put a weapons system into production in 4 years, unfortunately. So I think that would help dramatize what we regard as a serious problem, and one that, as these devices become more sophisticated and give more capabilities to weapons systems, we would like to protect.

Chairman **GIBBONS**. I can understand the weapons system. Why is Agriculture involved?

Mr. **BRADY**. Mr. Chairman, I will defer to the representative from the Agriculture Department. I will say we only have had export controls in the agricultural area for foreign policy reasons. As you know, those controls were imposed by President Carter after the invasion of Afghanistan as a means of punishing the Soviets for that action. Foreign policy controls on agriculture were eliminated earlier this year by President Reagan.

Chairman **GIBBONS**. Before that you mean we didn't have any export control on agricultural products?

Mr. **BRADY**. Not for the Export Administration Act purposes, let me put it that way. If I may just continue for a second. President Reagan felt that, in looking over what had happened with regard to the grain embargo, that other countries had filled in where the United States had been unwilling to ship and decided to lift the embargo.

Chairman **GIBBONS**. The best program Argentina has had in a long time. Go ahead. Why is Agriculture in export control at all?

Mr. **SMITH**. Mr. Chairman, we are not, except for a few countries that I think are generally under control, such as North Vietnam and North Korea. I think there are five countries that are controlled. Beyond that there is no control to any other country for any agricultural commodity at the moment. Regarding the Soviet Union, we are currently operating under the 5-year agreement for grains, which was extended for 1 year and ends this coming September 30. That is the vehicle under which we are operating now for our grain trade with the Soviet Union.

Mr. **FRENZEL**. Will the chairman yield?

Chairman **GIBBONS**. Surely.

Mr. **FRENZEL**. What happens if one of these forbidden countries wants to buy grain from us? What does it have to do?

Mr. **SMITH**. One of the five countries? It cannot buy it either directly or indirectly from us.

Mr. **FRENZEL**. I see. So we keep selling grain to Russia but we don't sell grain to the North Koreans?

Mr. **SMITH**. That is correct.

Mr. **FRENZEL**. That is brilliant.

Mr. **SMITH**. I beg your pardon?

Mr. **FRENZEL**. I say that is brilliant. Is that true, really?

Mr. **SMITH**. That is correct.

Mr. **FRENZEL**. Is that a matter of law, or Executive order, or what?

Mr. **Smith**. I will defer to Mr. Brady on that.

Mr. **Kopp**. If I may respond. We have a virtual total trade embargo with respect to four countries, not five; that is, Cuba, North Korea, Kampuchea, and Vietnam. There is essentially no trade with those countries. Trade restrictions are imposed both under the Export Administration Act and under the successor to the Trading with the Enemy Act, the International Emergency Economic Powers Act.

Mr. **Frenzel**. So we are a lot more nervous about Kampuchea than we are Russia?

Mr. **Kopp**. It is not so much a question of nerves, sir, as a question of hostility. Our relations with those countries are extremely poor. In fact, they are virtually nonexistent.

Mr. **Frenzel**. I would have to agree with that. I doubt they would have a lot of hard cash around to buy food.

Mr. **Kopp**. That is true.

Mr. **Frenzel**. On the other hand I have never thought that our relations were particularly friendly with Russia, or maybe I misjudge our defense efforts.

Mr. **Kopp**. We have a good deal more contact and communication with the Soviets, a lot more business to do with them than with these four countries. Their policies toward us, I might add, are unremittingly hostile.

Mr. **Frenzel**. I know we can sell airplane parts to Russia but we can't sell food to some of these other dangerous customers. I thank the chairman.

Chairman **Gibbons**. You haven't convinced me. You know, I don't want to advocate going out and selling grain to these people, or any other agricultural product. But it looks like all we do by not selling it is let somebody else act as a middleman. Do you mean to tell me there is no American wheat in Kampuchea or North Korea? How do we tell there is none there?

Mr. **Brady**. I think, Mr. Chairman, in the final analysis it is very difficult to track agricultural transactions that may go through 40 or 50 paper transactions before the quantity actually moves. I think the bottom line of the answer is that in the context of political relations between the two countries, these four countries that were mentioned are such that trade is precluded because of the political context. It is not necessarily for specific reasons such as it won't get there through another channel. It is simply that the Cubans are so destabilizing in their area that a political decision is made not to have any relationship with the country.

Chairman **Gibbons**. How does State get involved in all of these sales? You know, the one thing that we get constant complaints about from the American business community overseas is that it takes so long to get a license and that all of our trading competitors don't pay nearly as much attention to the licensing process as we do. Why does State have to be involved in this process at all?

Mr. **Brady**. Mr. Chairman, let me break the answer up into a couple of separate points. One, in the national security area, and the high technology controls, State is involved in the administration of that, in the processing of those licenses, because they are an advisory agency to the Department of Commerce, as is the Department of Defense. In other words, when we receive a license application for one of the items under the Commodity Control List, there are some which we at Commerce process on our own, independently. There are some which are referred to the Department of Defense, Department of Energy in some cases, Department of State, for their advice to the Department of Commerce. That is one way in which the State Department is involved.

Second, State is involved more actively in the foreign policy controls, because by their definition they imply an element of political application, foreign policy application, and therefore the direction to a certain extent in the foreign policy control area comes from the Department of State.

The last point you made concerns the complaints by the business community about the delays they have had in processing cases in the United States. There is some truth to that allegation. I am proud to say, however, that when we took office in January, we inherited a tremendous backlog, beyond the statutory deadlines. And I now can say that we are down to something like 38 cases that are beyond those statutory deadlines from 2,000. So I think we are trying to deliver to the business community.

Chairman GIBBONS. What is the statutory deadline?

Mr. BRADY. Mr. Chairman, they vary according to each stage in the licensing process. There is a rather intricate set of 30-, 60-, 90-day schedules for different types of applications, as well as different stages in the review process. For instance, Department of Defense, Department of State are given 30 days to review an application. In the international system, our allies with whom we participate are given an additional time period.

Chairman GIBBONS. What percent of your applications have to go to State?

Mr. BRADY. I don't have that information off the top of my head. Let me break down the applications somewhat for you. We get about 75,000 to 80,000 applications a year. About 10 to 12, 15, a varying percent of those, are for the Communist bloc. They by far are the cases that take most of our attention. There is still, I would say, 50 to 75 percent of those for the Communist bloc that require the attention of other agencies of the Government; namely, Department of Defense, Department of State. So we are talking about a handful, probably 5,000 to 7,000 applications from Communist countries, reviewed by other agencies. There would be some others, some of the more sophisticated computers for areas of the free world that would have applications that would also be reviewed.

Chairman GIBBONS. Out of the 75,000 applications you get, how many are actually turned down every year?

Mr. BRADY. Mr. Chairman, I have those precise statistics. In fiscal year 1981, for the Communist countries, we turned down 9 percent of the applications we considered.

Chairman GIBBONS. How about of the free world countries?

Mr. BRADY. 0.1 percent.

Chairman GIBBONS. What kind of products did you turn down to the free world countries?

Mr. BRADY. For the free world? The primary concern we have in reviewing applications for the free world is one of preventing diversion. We know, and as a matter of fact, in the last 6 to 12 months we have become increasingly aware that the Soviet Union is acquiring Western technology both legally, through commercial acquisitions, as well as illegally. They have stepped up their illegal acquisitions. They work in a very structured fashion. They work through the sister states of Eastern Europe and through the intelligence agencies of those states. They want and need Western technology. The purpose of reviewing cases for the free world is to make sure that we have a paper trail to make sure that those, the more sophisticated technologies that go to the free world are not diverted to the Soviet Union.

Chairman GIBBONS. I read that the Japanese are complaining about their own export performance as far as the Soviet Union is concerned. They apparently feel that by following our policy, that the British, I mean the French and the Germans are undercutting them. What kind of monitoring do we do on the other exporting countries?

Mr. BRADY. Mr. Chairman, for the high technology products, the list of controlled commodities is applied, is the same list applied by Japan, by the NATO allies. We have an opportunity to review exceptions to the so-called embargo which they would want to make. In other words, if Japan wants to sell a computer to the Soviet Union we get a chance to take a look at it, just the same as they get a chance if we want to sell one of ours. There are various levels in this list of controlled commodities. Some we can sell and approve without referring to our allies, what we call a national discretion level. Anything below that we can do independently and just report to the Cocom apparatus. So that we do have a mechanism by which we follow what is being proposed by the Japanese and by the Europeans. There have been differences of interpretation in the past over certain items on that control list. In other words, they have interpreted it in a manner different than ours, different parameters. I would say that is not a prevalent practice, however. I think for the most part we generally agree on whether or not a license for a commodity is required, whether an exception will be granted for particular export.

Regarding the publicity on the Japanese situation, I would point out that we have more controls than they do, in essence. And that we control for foreign policy reasons oil and gas production manufacturing equipment to the Soviet Union. For all practical purposes that is the area that is receiving a tremendous amount of attention in the press; namely, whether we should help the Soviets develop their oil and gas industry. It is a very profound question because it gets to the guts of the problems of the Soviet Union. So, in talking to the Japanese and West Europeans, they have different perceptions, primarily in the oil and gas area. To a significant degree that is what is being addressed in the press, not national security controls, per se.

Chairman GIBBONS. Are shoes on the list of items that have to be licensed?

Mr. BRADY. No, sir.

Chairman GIBBONS. How about wheat products, are they on the list of items that have to be licensed?

Mr. BRADY. Not for national security reasons, no, sir.

Chairman GIBBONS. Well, do they have to be licensed?

Mr. BRADY. No.

Chairman **Gibbons**. For control?

Mr. **Brady**. No.

Chairman **Gibbons**. How about publications?

Mr. **Brady**. Mr. Chairman, publications, depending on the type of publication, would come under technology, or technical data controls. A blueprint, or a manual on software would very definitely need a license. It is precisely this kind of a product that the Soviet Union has great difficulty with. The thing, for instance, that the Soviets lack, and I think we underestimate this sometimes, is production knowledge, production know-how, the ability to put an assembly line together and make it work so they get good productivity out of it, where to put the machine, how to organize it. Very often that is in literature and, yes, it is very definitely controlled.

Chairman **Gibbons**. Mr. Frenzel?

Mr. **Frenzel**. Thank you, Mr. Chairman.

Thank you, gentlemen, for your testimony. I share the chairman's concern, or what I sense is his concern, that we are going to a lot of trouble, occasionally stabbing ourselves in the foot, to administer this program and wondering if, between us and our allies, and the rest of the free world, we are actually doing much good with it. We do a pretty good job of frustrating American businessmen. I hope we are doing an equally good job of frustrating our potential enemies, keeping them from getting hold of things that really would enhance their military capabilities. Can you tell me what are those 128 illegal shipments that your eagle-eyed investigators pounced upon in fiscal year 1981?

Mr. **Brady**. Mr. Frenzel, I can't tell you offhand. I will be glad to supply——

Mr. **Frenzel**. What kind of things are they?

Mr. **Brady**. Computers, airline parts, any number of commodities. Well, there are a couple of cases that I can tell you about that have already been decided. The largest case in export control history was decided on the west coast in the last week or the week before. That concerned primarily electronic equipment being diverted to the Soviet Union. Before that, there was a case dealing with technical data; as a matter of fact, computer software that would have given the Soviets the capability in an area of, I believe, aircraft detection. It was a critical area. The Spar case, Spar Electronics, I believe, was the name of the company. It is a company out on the west coast that manufactured laser mirrors. The Soviets had acquired from this company a number of the mirrors; an illegal diversion had taken place through Germany. The mirrors were copper mirrors, and the company defended itself by saying they were not high technology. What was critical was the polishing technique for those copper mirrors. They are being used in laser weapons development. As you know, that is one of the next generations of weapons. The Defense Department has a classified film in which it shows what one can do in addressing aircraft with laser weapons. Some of the mirrors were used in that film. So these are the kind of things we would be seizing and prosecuting criminally or administratively.

Mr. **Frenzel**. What I was really asking about is what kinds of shipments? Are they misdescribed on the bills of lading or on applications for export licenses? What is the problem?

Mr. **Brady**. They range the gamut of simply going out without a license; namely, general license, or being misdescribed. There is the full range. Going out under a de minimis dollar value, for instance, as was partly the case with the laser mirrors, where if it is below a certain dollar value, you don't need a license. There are any number of purely statistical or administrative ways in which one falsifies documents.

Mr. **Frenzel**. Your statement there that you are going to increase export law enforcement, I hope means that you are not going to engage in general activities of harassment but you are going to focus on these high technology or critical areas where you have had problems in the past.

Mr. **Brady**. As a matter of fact, we are—part of that increased enforcement activity is going to be educational, to try to impress upon the business community—and very often it is a 15- to 20-man operation in some of these areas that has a very, very high technology product—to impress upon them the fact that they need licenses for export sales to certain countries. Also we are working with the FBI and CIA to try to get declassified some of the information as to how the Soviets are operating in the West and the United States, to alert them to the fact that there is not only industrial espionage by their competitors, it is also by their competitors in the Soviet Union.

Mr. **Frenzel**. But out of deference to this committee's efforts, do it in an educational way and don't scare them out of the export business if you can help it.

Mr. **Brady**. Absolutely, sir.

Mr. **Frenzel**. I understand that OEA has implemented a new tracking system. Is that thing on station now, and will it deliver information to me as to where a license application stands within the twinkling of an eye?

Mr. **Brady**. Mr. Frenzel, I was prepared to answer your question before you got to the last part. Now I will be a little more cautious.

Mr. **Frenzel**. Sorry I goofed up the script.

Mr. **Brady**. We have, frankly, because the backlog was so massive, we instituted a manual system. In other words, OEA tracks applications in a big logbook. It is inefficient; it is complicated. But nevertheless it works at this point. We have a parallel computer system also coming onboard. What we want is to make sure that the two go hand-in-hand for a period of time so that when we are totally on the computer, totally automated, it will be good, sound; because our experience in the past has been one of having massive problems with the computer support operation we have had. We will have absolutely, at some point, I hope within a 6-month period, have an automated system that works, that is accurate.

Mr. **Frenzel**. Do you have a time schedule for such a system?

Mr. **Brady**. Yes, we do. We have been working intensely with the administrative support people in the Department. The Secretary has given his full support to the implementation of that automated system.

Mr. **Frenzel**. But when?

Mr. **Brady**. I hope, sir, within a 6-month period.

Mr. **Frenzel**. Now of the 2,200 out of condition applications which you now have worked down to 38, that is a great improvement. You are to be congratulated on that. I am thrilled to hear that. On the other hand, there are still a lot of applications in the process. Each application should not take the maximum statutory or regulatory time to complete. Can you give us a progress report on the average application, or what you still have in the system?

Mr. BRADY. I believe we have—well, I don't have that with me.

Mr. FRENZEL. Can you do it for the record?

Mr. BRADY. Very definitely.

[The information was not received.]

Mr. FRENZEL. Along with that, can you give us your target for what you think would be an acceptable performance and when you expect to get there in terms of turning these out? I can't tell you how discouraging it is for us to go abroad, to go to China and hear all these guys say look, it is supposed to be policy for us to sell over here. I got the only order in sight for a piece of gear, and I can't even find out whether I am allowed to sell it. If I can't, I would like to know so I can try to sell something else. So whatever you have on that will be of great interest to us.

Mr. Chairman, with your permission, I would like to ask a question for Mr. Vander Jagt.

Chairman GIBBONS. Sure.

Mr. FRENZEL. He wanted to be here and could not be here today. It relates to a specific antidumping case. He asked me to bring this to your attention, Secretary Brady, although our discussion here today has talked about licensing. It relates to the Smith-Corona antidumping case against a Japanese supplier.

He is wondering what the status of that matter is and why dumping fees have not been assessed, or whether they might be. I wonder if you can give us some information for the record on that case.

Mr. BRADY. Mr. Frenzel, I would gladly tell you what I know about the case and supply more for the record. It is my understanding that we completed our investigation in May of 1980. Three Japanese companies were found to have dumped merchandise in the United States during that period.

Another review was conducted immediately after that, and it was found that changes had been made in those dumping practices. The action of the Department of Commerce was challenged in the Court of International Trade, and I believe that is where the matter is at this point.

The issue is technical, relating to adjustments to price for circumstances of sale and rebates. That is what is before the international court. I understand briefs are due at this point before the international court, and that is about all I know about the case offhand. It is in litigation.

[Additional information was not received.]

Mr. FRENZEL. Thank you very much.

Mr. Chairman, may I proceed?

Chairman GIBBONS. Certainly.

Mr. FRENZEL. I know you are getting hungry.

Chairman GIBBONS. That is all right.

Mr. FRENZEL. We are about to enter into what you described as high-level negotiations with our allies about working on the so-called COCOM list. Our allies, particularly our European allies, are in much more distressed condition than we are. It seems to me we are not going to get a substantial revision of their appetite for shipping very easily.

If we are not able, then what is our policy going to be with respect to our own export administration?

Mr. **Brady**. Sir, I would not want to concede before beginning that we are not going to be able to get the allies to agree, particularly because our objective is not to broaden controls, but to strengthen them.

Our chief concern is to strengthen controls on technology, particularly at the high end, so we don't convey to the Soviets design, manufacturing, and productivity capability. It may be we can actually loosen up on some of the products currently controlled so that we would, from a purely business standpoint, be better off.

Now I don't wish to mask the point that you are absolutely right when you draw a distinction between U.S. commercial interests and interests of Western Europe, particularly West Germany, in the trading relationship with the Soviet Union. There is no question about that. That is made very vivid to us as we discuss the pipeline question, for instance.

There are billions of dollars worth of sales associated with the pipeline, not only for the pipeline itself, but on an ongoing basis after the pipeline is built. That also carries with it tremendous political strategic liabilities.

There is a very, very strong concern about that, about the continued economic integration of Western Europe, particularly West Germany, into the Soviet sphere of influence. I don't think we are going to fail. I think we are going to succeed.

I think we are going to be able to impress upon the West Europeans that to export the sophisticated high technology area we are concerned about undermines our efforts to defend Western Europe and the United States, and specifically the efforts we were about to undertake, the Reagan administration is undertaking in upgrading its military capability.

Mr. **Frenzel**. Thank you. I had understood that as part of your efforts to move the system along, that there was an element that you were going to hope for more informal DOD review of a lot of these applications for low-level computers.

I don't know how that is coming, but can you give me some information on that? Are we going to have informal review or is every application going to go over to DOD?

Mr. **Brady**. Our objective is to streamline the export control process. By that, I don't mean to approve more cases, but rather to make it work more efficiently, get a more prompt answer.

We have already taken an action in the PRC area, for instance, where below certain technology levels we at Commerce will process cases and make decisions, make a decision on cases independently.

Frankly, I think the extent to which we are able to do that at Commerce depends on the credibility we have with our advisory agencies, with Defense, State, Energy. That means putting our house in order, which we are doing, and to which the Secretary is committed, and getting the expertise necessary to make the hard decisions, to make the calls regarding the technology in a particular license application.

So, yes, as we move through this process we will try to duplicate what we have done for the PRC; that is, to not dilute everyone's resources by having everyone look at the same thing.

Mr. **Frenzel**. Well, I would agree. Also, I realize that your department has to observe the policy—and you have to be good at it—not only to get credibility with your associate agencies, but also because you want to carry out the policy exactly right.

On the other hand, somebody has to be an advocate for trade. When you ship something over to the DOD and it falls into the in-basket of some gnome in a windowless cell over there, it is going to be that gnome's consideration to say, "If this one goes forward, no possible good can come to me, but there is some possible harm."

Our previous experience has been that that in-basket became a permanent storage basket. So, when you do ship things over to your associate agency, I hope you are willing to make some recommendations as well and not just let them escape into the great vacuum somewhere.

Mr. **Brady**. Before an application is sent over to Defense, there is a Commerce Department recommendation in there. Now, I think Steve would like to add a few words.

Mr. **Frenzel**. He doesn't count. He has a window.

Mr. **Brady**. But recommendation is made. Sometimes that is a negative recommendation. The office, the trade administration area functions within, in Commerce, the overall context of trade promotion.

However, the Export Administration Act levies upon my office the responsibility of maintaining a set of controls for very specific reasons. It is not my objective to make them broad, but simply to apply them to protect what we decide is truly a strategic interest, to make that system work well.

It hasn't worked very well in the past. I think to the extent that the system is improved in Commerce, then we will have much less time at Defense.

But yet, we are keeping them on their toes, sir. We send weekly updates of how many cases they have got and ask when are they going to get us a response.

Mr. **Frenzel**. Good for you. I am particularly thinking of these resales of an item that you approved last year, or 6 months ago, that seem to just disappear.

Secretary Bryen, would you like to comment?

Mr. **Bryen**. Well, I have to reclama that a little bit. Our effort is directed, as you know, to see to it that the export of any goods, technology or know-how, would not impact negatively on the missions the Defense Department performs to safeguard our security.

Rather than have a case sit in front of a gnome, we do a little better than that, I believe. We make a strenuous effort to have each of our military services review a case, to analyze what impact it might have.

We try very hard to establish some ground rules. We have worked with some degree of effort on a military technology list. We have attempted to use that list internally to help us screen incoming cases to the extent possible.

The civilian marketplace is a rich one and things change rapidly, but we do try to be precise. We have our research and engineering people at the Department of Defense take a look at an item. Finally, it moves on through my policy shop.

In short, I think that the review is a good one. It is thorough. We have tried to streamline it along the same lines Commerce has so that we won't spend inordinate amounts of time.

I do want, though, to make one point that seems to have slipped away here today. It is this, frankly. In the past, items were approved which we in the Department of Defense have found, in retrospect, to have done damage to our national security.

We don't see those precedents as binding on us now because I showed you earlier an example of some of the kind of technology that simply left the country because we weren't watching carefully enough in the past.

Mr. FRENZEL. Well, that technology is not the sole property of the United States. There are other areas of the world in which that technology exists.

Mr. BRYEN. That is correct, and mostly they are in the COCOM system, so we do have some ability to gain agreement, and we are looking for it as well. Unfortunately, though, in this case they brought along, it happens to come directly from an American manufacturer. That is not always so, but in this one it is.

Mr. FRENZEL. I guess the point I am trying to make here is that Members of Congress like ourselves are sick and tired of being case workers for overdue and lost applications. Not only us, but the National Security Council is sick of it, and the STR is sick of it, and Larry's boss is sick of it.

Mr. BRYEN. That is fair enough.

Mr. FRENZEL. If we have a consistent kind of regulation, you will certainly find the U.S. business community is not interested in giving away any secrets. They will be glad to follow the rules you post as long as you follow them.

Mr. BRYEN. No; I think you are absolutely right about that. As I said, we are making a strong effort to be responsive. I will say, though, that a good part of our time is spent on reclamas of cases already decided. That is written into the law, as you are aware, so that there is an opportunity for that kind of exchange to take place, but that tends to make things look like they take longer than they otherwise might take.

I have seen just an endless number of cases like that in the short time I have been at the department, where the department's position has been stated, but there have been efforts to modify the product so that it might qualify and so on.

That does take a lot of staff time and action, but it is worth it in the long run if we can then satisfy the business community and, at the same time, safeguard our national security.

Mr. FRENZEL. I agree.

Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Bryen, what is the shortest period of time you can expect to review an export matter, to send a request through Commerce and then for you to get it back to Mr. Brady approved? What is the shortest period of time?

Mr. BRYEN. In the Department of Defense?

Chairman GIBBONS. Yes, sir.

Mr. **Bryen**. We hope to be able to turn cases around, where we do have a clear precedent, in just a day or so.

Chairman **Gibbons**. Where there is no clear precedent, how long does it take?

Mr. **Bryen**. Then we have 30 days, and we are trying to work well within that.

Chairman **Gibbons**. That 30 days is a maximum, though. What can you do in less than 30 days?

Mr. **Bryen**. It depends, sir. I think it is very hard to be precise. To give you an example, if we have a proposal for a large computer network, a good deal of technical work just has to be done to understand it. What we try to do is to get the case out as quickly as we can to the laboratories that are involved in computers, and to get it turned around as quickly as possible.

Chairman **Gibbons**. How many people do you have on your staff?

Mr. **Bryen**. I have 10 on my immediate staff, and I can give you some statistics on the number of people in the military services and research and engineering who are committed to this. We are also automating part of my end of the process, which will give us a chance to compare previous cases, precedents, and to do it more efficiently. I think that will help a great deal.

Chairman **Gibbons**. What was that item you were holding up?

Mr. **Bryen**. A Soviet printed circuit board with microprocessors on it that was, as I said earlier, manufactured by the Soviet Union in 1978. It was found off the coast of North Carolina in a type of buoy that was dropped by a Soviet ship.

Chairman **Gibbons**. You can buy that all over the world, can't you?

Mr. **Bryen**. I don't think you can buy it all over the world, but more seriously, you can't manufacture it all over the world. There are only certain places where something this elaborate can be made. This is not a brandnew one.

This is a 1978 model. But it shows a capability that was acquired from the West, partly through legal means and partly through illegal means, I want to emphasize that, by the U.S.S.R.

It is this type of thing that is being put into Soviet military systems today, and in fact, some more advanced than this. This happens to be a circuit board that came out of what is ostensibly a civilian piece of Soviet equipment.

Of course, as you add this kind of capability, the sophistication of the Soviet weapon system grows commensurately. The defense problem for us grows. Ultimately, it is the American taxpayer who foots the bill because then we have to go into additional countermeasures and other types of things to compensate for these gains.

We think it is in our national interest to see what we can do to at least slow down—we can never stop it, I don't think, but at least to slow down—and maintain military lead times which are critical.

Our whole defense is ultimately based on the quality not only of our military people—we have very good military people—but on the quality of our equipment, so we don't have to build nearly as much as the other side does.

The more of this kind of thing that gets out of our country, the quality edge begins to go away. Then we are in deep trouble. So we think the effort is worth it, more than worth it.

Ultimately, I think for the small amount of trade we do with the Soviet Union and Warsaw Pact—and it is a small amount of trade compared to what we do in the free world—that the burden is far greater on the taxpayer if we then have to do more in terms of our own national security.

Chairman GIBBONS. Thank you, gentlemen. I have a few questions I would appreciate your responding to for the record.

Mr. BRADY. Thank you, sir.

[The questions and answers follow:]

Question. The 1979 Export Administration Act requires the OEA (Office of Export Administration) to make a determination when it imposes national security controls and considers individual license applications of whether the goods or technology are available in sufficient quantity and quality to make control or license denial ineffective. If affirmative, OEA must remove the control or issue the license.

However, a September 12 article in the Commerce Department publication Business America states that only this year have funds been appropriated and "an OEA official" been hired "to begin to develop" the capability to monitor and gather information on foreign availability of products being considered for license.

This would appear to be a key determination. In the absence of appropriations and now only one person to begin to develop the capability, how has this requirement been handled in the consideration of individual licenses?

Do we have any information as to how much export business we have gained and lost because of issuance or denial of licenses based on foreign availability of the product?

I have frequently heard the complaint that our export control policy doubly punishes U.S. high technology companies:

Once when they lose the sale profits because they don't get an export license; and

Once when a competitor from Japan, Switzerland, or Lichtenstein makes the sale and gets extra profit to reinvest and compete against U.S. companies.

What are you doing to remedy this problem of restrictions in U.S. exports that are available from other sources?

Answer. The Export Administration Act of 1979 requires the Department of Commerce to consider the foreign availability of commodities or technical data before imposing national security or foreign policy export controls. Section 4(c) prohibits the imposition of such controls on commodities or technical data available without restriction from sources outside the United States in significant quantities and comparable in quality to those produced in the United States unless it is determined that "adequate evidence has been presented demonstrating that the absence of such controls would prove detrimental to the foreign policy or national security of the United States." Whenever national security controls are imposed notwithstanding foreign availability, the Department of State initiates negotiations with foreign countries to eliminate such availability. In the case of foreign policy controls, "all feasible steps" to negotiate are required.

In order to carry out these responsibilities, the Office of Export Administration (OEA) is required by the Act to review foreign availability on a continuing basis. A completely adequate mechanism for this purpose has not as yet been established within the Commerce Department, although progress has been made through the use of outside consultants to begin to develop the conceptual basis for this capability. OEA closely coordinates its foreign availability determinations with industry and other government agencies, including the intelligence agencies.

During the past year, OEA's basic objective in the foreign availability area has been to plan the implementation of the requirements of the Act so as to (1) make more consistent its security reviews of individual export license applications to Bloc countries, thus helping to reestablish export licensing credibility with industry, and (2) improve the East-West export control policy review process, through the provision of technical reviews of world-wide capabilities in specific fields.

To these ends, OEA has:

Identified and listed the categories of information that will be necessary for making a determination of foreign availability consistent with the provisions of the Act;

Identified sources of information and technical expertise throughout the government and industry that are relevant to foreign availability, and obtained several agreements for data sharing and other cooperation on an "as needed" basis;

Advertised for a full-time foreign availability analyst within OEA; and

Undertaken a prototype assessment of a specific area of technology of interest to DOD and DOC to define both data needs and analysis techniques.

During fiscal year 1982, OEA will begin to develop a foreign availability data base for use by the licensing officers. Data analysis activities will be implemented to the extent that resources permit and specific needs arise.

Because of the cost of collecting and subjective nature of the data, OEA is not in a position to make estimates of business gains or losses because of licensing decisions.

Chairman GIBBONS. We will recess until 2:15.

[Whereupon, at 1:25 p.m. the subcommittee recessed, to reconvene at 2:15 p.m.]

AFTERNOON SESSION

Chairman GIBBONS. I wonder if we can get started. We have as our next panel of witnesses export finance policy folks from the Department of Treasury, Export-Import Bank, Office of the U.S. Trade Representative, and from the Commerce Department, from the State Department and from Agriculture. Mr. Leland—you are the leadoff witness—suppose we hear from you first.

STATEMENT OF MARC E. LELAND, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, DEPARTMENT OF THE TREASURY

Mr. LELAND. Thank you, Mr. Chairman. I appreciate the opportunity to be here with you today to discuss with you the very important topic of export credits. As I have submitted a statement for the record, I will not read it or go through it at this time. I will just take a minute or two to give you the highlights of how we see this particular issue.

The first comment that is worth making is in connection with the meeting in Paris a few weeks ago in which Mr. Draper, I and representatives from all the other agencies at this hearing participated. We scored what is basically the most significant breakthrough we have had in this area in several years, in the sense that we have now achieved much greater acceptance by our major trading partners of the concept that subsidized export credits themselves are an uneconomic way of doing business, and that to a great degree we should try to reduce these subsidies.

We reached an agreement that would essentially raise minimum interest rates about 2¼ to 2½ percent, so that the minimum rate for the poorest countries is at 10 percent, and we go up to 11¼ percent for the richer countries. The categories are set forth, as I said, in the record.

Last December, when we were trying to negotiate this, the maximum that the EC would talk about was 0.8 percent, and so we felt that this was a substantial advance. It was also a substantial advance, I might mention, because I think we all saw that there was acceptance in Paris that the train is now moving, and that there was some impetus to increase these rates to get them up to market rates.

We were not supposed to have another meeting until May, but it was agreed as part of this agreement that we would have a meeting in March, at which time we would try to move these rates up further.

In addition to that breakthrough there was another, which was that a country which had a low interest rate will not have to charge a rate as high as all the others will be charging. This was a movement toward what the United States prefers: the differentiated rate system, whereby every country is allowed to charge its own interest rate for loans in its own currency.

There was a specific problem, as I am sure you are aware, with Japan. It was worked out that a premium was put on their Eximbank lending above the long-term prime rate in Japan. This was considered to be a fair request for the other countries to make of the Japanese, in that obviously an Eximbank involvement has great value in a transaction. Therefore to allow it to charge exactly the same rate as a commercial bank would not necessarily be fair, and the Japanese eventually came to accept this on the basis of a 6-month agreement.

We will review it, as I said, again in March, but Japan will put a 35-basis-point premium on their Eximbank lending. Of course, if they want to reduce the share of loans made by the Eximbank and to guarantee private loans at the long-term commercial rates, they are entitled to do that.

We are very happy with that result, particularly because we feel it is a beginning on something that we have all been trying to do for years, which is to save the various countries involved the cost of export credit subsidies—now somewhere around $7 billion per year.

In addition, as the statement points out, some weeks ago we also reached an agreement on aircraft financing which set a minimum dollar interest rate for the first time at 12 percent. Again, we hope this is a movement toward eventually reaching market rates.

We have other areas in which we want to work, particularly in the area of—this recent agreement was really on jet aircraft—other types of aircraft, and also on nuclear powerplant financing, which has become an enormous cost to export credit agencies. One is talking about nuclear projects that tend to cost around $1 billion each, and at interest rates that are something over 7 or 8 percent. Thus, over the term of the loan, there is a subsidy of close to $1 billion for a $1 billion deal. We are considering the possibility of working out separate sectoral agreements in the nuclear area, in the same way that we have done in the aircraft area.

In both of these we are rather pleased that there is a beginning, but it is only a beginning. We hope we can push it along further.

In addition, I should mention there are other elements of the agreement that we did in Paris which were particularly useful. In the area of mixed credits, which have become a big problem, we have extended the requirements for notification when mixed credits are given. We have found that where one has to notify, where one has to give the information, this reduces the occurrence of the activity, and thus this also has constituted great progress.

I will leave the rest of my time for questioning. Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you.

Mr. Draper, you have a statement. Mr. Leland, we will put your entire statement in the record.

Mr. LELAND. Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of Marc E. Leland, Assistant Secretary for International Affairs, Department of the Treasury

SUMMARY

Foreign export credit subsidies recently have been among the most serious causes of distortion in international trade. In early 1980, the OECD estimated these subsidies at about $5.5 billion. Using the OECD's methodology, a rough estimate is that they recently exceeded $7 billion. As a consequence, both this Administration and the Congress place a high priority on reducing these subsidies.

In October of this year, we finally gained a breakthrough in reducing export credit subsidies. Twenty-two of the OECD countries agreed to raise the minimum export credit interest rates in most currencies from a norm of about 7.75 percent for long-term loans to relatively poor countries to a new minimum of 10 percent. Subsidies in some currencies thus will be reduced by 30 to 40 percent. For the Japanese yen and other currencies with commercial lending rates below the new 10 percent level, a separate minimum interest rate of 9.25 percent was agreed upon. This represented the first modest international recognition of the principle that minimum export credit interest rates should relate to market rates in each currency.

Despite these modest successes, we are not at all satisfied that Arrangement reform has gone far enough. Market interest rates in most currencies are well above the new 10 percent minima. The degree of subsidization permitted under the Arrangement still is not much less than it was in mid-1980, due to the rise in financial market rates in the meantime. Further, we still have only the untested beginning of a procedure allowing regular, timely adjustment in Arrangement rates to reflect market conditions; future changes must still be painstakingly negotiated. Finally, we would like to gain further discipline over the increasing use of mixed credits and to extend the Arrangement to sectors—such as nuclear power—that are still not covered by its discipline.

Role of export credits

The Administration knows the benefits of exports to the U.S. economy. One of every eight manufacturing jobs, one of every three acres of farmland, and one of every three dollars of U.S. corporate profits result from exports and the other international activities of U.S. firms.

We have sought to promote exports by improving productivity in all sectors of the economy. The Administration has stressed and will continue to stress an abiding reliance on market forces. For exports, this means the removal of disincentives. It also means the removal of artificial stimulants to trade, including subsidized export credits.

We are well aware that subsidized export credits, whether from the U.S. Eximbank or its foreign counterparts, distort trade and investment. The credits transfer resources from domestic taxpayers to exporters or to the importing country, without necessarily leading to any long-term improvement in the terms of trade. In fact, the short-term effect is to worsen the terms of trade.

Our foreign trading partners do not always see things in the same light. They have sought to retain their export credit subsidies, arguing, among other reasons, that subsidies (1) are cheaper than unemployment and welfare benefits, (2) are a form of foreign aid to LDC's, and (3) promote industrial sectors to which the government gives a high priority.

On the first and third points, the subsidies are both cause and symptom of state intervention. Rather than facilitating efficient factor flows and promoting more efficient production, the subsidies prolong and even deepen the current inefficiencies. As subsidized resources are drawn from more productive sectors, there is an additional inefficiency built into the system. This also undermines the principles of comparative advantage. On the second point, most of the export credits are not directed to those LDCs that require concessional resource transfers.

The futility of export credit competition is ackowledged in many ways by our competitors. The EC rules, for example, do not permit subsidized financing within the EC.

Negotiating history

In meetings during December 1980 and May of this year, the United States, Japan and the EC were at a negotiating impasse. The EC offered grossly inadequate increases of 0.8 to 1.0 percent in the matrix, which would have brought the minimum rate for long-term loans for LDCs up to only 8.55 percent irrespective of currency. The United States and Japan preferred a system that would have tied minimum official export credit rates to the cost of money to governments in the various currencies.

Finally, in October this year, the EC made a more meaningul offer, which became the basis for an interim agreement. The compromise matrix, with the old rates in parentheses for comparison, is as follows:

[In percent]

Classification of borrowing country	Number of years in repayment		
	2–5	Over 5 to 8.5	Over 8.5 to 10
Relatively rich	11.0 (8.5)	11.25 (8.75)	(1)
Intermediate	10.5 (8.0)	11.00 (8.50)	(1)
Relatively poor	10.0 (7.5)	10.00 (7.75)	10.0 (7.75)

[1] No credits.

There is a floor of 9.25 percent for loans in low interest rate currencies, such as the yen.

This compromise will affect all new export credit offers made on or after November 16.

Next steps

These changes in the Arrangement's interest rates are the most significant since the Arrangement's predecessor agreements were inaugurated in 1975. Nonetheless, we regard them as only a first step towards our ultimate goal of a system that would (1) set minimum export credit rates at the cost of money to governments and (2) be revised automatically in response to financial market forces. The next step is to be taken at a special March 1982 meeting of the Participants to the Arrangement. Should financial markets remain at their current levels by the time of that meeting, the United States would propose another in the basic matrix rates to bring them much closer to market rates.

We would also expect to find a better means of accommodating the countries, especially Japan, that are likely to have interest rates below this matrix. An artificial interest rate floor that bears little relationship to financial market rates cannot be expected to serve as a lasting means of avoiding friction in export credit competition.

Sector agreements

We have also explored special sector agreements among key producing countries in our efforts to reduce export credit subsidies.

The two most important sectors are large commerical aircraft and nuclear power. These sectors, for example, consumed 42 percent of Eximbank's direct loan budget in fiscal year 1980 and 48 percent in fiscal year 1981.

At the end of the summer, we adopted a common line on aircraft financing with our principal competitors in large commercial aircraft. It has the following major provisions: (1) a minimum U.S. dollar interest rate of 12 percent; (2) maximum ten-year, direct credit support of 62.5 percent or 42.5 percent, depending on the repayment schedules of private and official financing and (3) limits on the amount of official financial support which can be offered for spare parts. These terms apply only to exports to countries other than parties to the common line—the United States, West Germany, the United Kingdom and France.

For the future, the U.S. Government is preparing a study in support of longer repayment terms for aircraft finance, which we shall discuss with the Airbus Industrie governments. The European governments are resisting the idea of extending repayment terms for aircraft. However, both we and the U.S. aircraft industry believe that longer terms would be consistent with the economic life of most aircraft and would help reduce subsidies in this sector. We shall discuss the merits of guaranteeing private financing at terms longer than ten years and also seek to bring the minimum interest rates for aircraft further into line with financial market rates.

Although we have focused up until now on commercial jet aircraft because these have been large consumers of the Eximbank budget, we are also concerned about export credit subsidies for general aviation aircraft. We have had informal conversations with some of the countries that produce these types of aircraft, and we intend to press for stronger controls over export credit subsidies in this area.

The second most important possible sector agreement after aircraft is one governing financing for nuclear power plants. These plants may cost as much as a billion dollars apiece, while the minimum interest rates offered have been as low as 7.6 percent. Given the long construction period for the plants and the relatively long repayment periods for official finance, we estimate that the present value of the export credit subsidies may range from $200 million to $450 million per billion dollars of exported plant. Clearly, this is an area ripe for negotiation.

We intend to approach the other major nuclear power exporters before the end of the year with proposals similar to those put forward in the aircraft sector. It is too soon to tell what kind of reception we shall get from the other nuclear power plant exporting countries.

In summary, we have taken important strides forward in reducing export credit subsidies, reducing the subsidies in areas covered by the Arrangement by as much as 40 percent. We have a useful informal common line on aircraft.

To an extent we have broken through the impasse on the export credit negotiations and established some basic principles. Other countries now accept the principle that export credit rates should not remain static in the face of movements in the financial markets. They also accept the principle that all currencies need not have the same minimum export credit interest rate. We have started the process of reform.

However, much remains to be done. The Arrangement's minimum rates must be brought much closer to financial market rates. To have export credit agencies offering loans at rates (e.g., 10 percent) below those which the World Bank charges, currently 11.6 percent, is not justifiable.

We need to continue to reduce subsidies in the aircraft sector by raising our common line's rate from 12 percent for dollars to market rates of interest. We need stronger controls on export credit subsidies for general aviation aircraft. We need to find some means of reducing export credit subsidies for nuclear power plants. All of these points indicate that this Administration will continue to give high priority to reducing export credit subsidies.

EXPORT CREDITS: A REAGAN ADMINISTRATION POLICY FOR THE 1980'S

Introduction and overview

The United States is deeply involved in the world economy. Our economic interaction with areas beyond our own shores is increasing rapidly, and results in substantial economic gains:

(1) In 1980, merchandise exports accounted for 8.5 percent of GNP while merchandise imports amounted to the equivalent of 9.5 percent. These figures represent more than a doubling of the share of trade in our national economy since 1970.

(2) The United States is the world's largest exporter. In 1980, merchandise exports amounted to $220 billion while combined exports of goods and services reached $340 billion.

(3) Total export-related employment in 1980 was 5.1 million, an increase of 75 percent over the 2.9 million export-related jobs in 1970. About 80 percent of these jobs—4.1 million—were related to exports of manufactures, while nearly 900,000 were related to agricultural exports and another 142,000 to mining.

(4) Put another way, one of every eight manufacturing jobs and one of every three acres of farmland are dedicated to exporting.

(5) Finally, almost one of every three dollars of U.S. corporate profits now derives from the international activities of U.S. firms, including both their foreign investments and their exports.

The Reagan Administration is well aware of the benefits of trade for the U.S. economy. The potential for improved productivity, the increased employment opportunities, and the lower costs stemming from longer production runs are all among the considerations which have led us to make a commitment to a strong export policy.

That policy stresses above all the removal of both disincentives and artificial stimulants to trade, and reliance on market forces. It does not include artificial stimulation of exports through subsidized export credits, except where deemed absolutely necessary to counter certain foreign export credit subsidies. Indeed, we firmly believe that production for domestic consumption and production for export must be conducted under the same economic ground rules if our economy is to operate at maximum efficiency.

Export credit subsidies have the same distorting effect on trade and investment as import barriers or domestic subsidies. Similarly, once freed from such distortions, production for domestic consumption has the same stimulating economic effect as production for export. Both markets should be as free of government intervention as possible.

One reason export credit subsidies are pernicious in that they seem reasonable in an imperfect world. However, the subsidies have the effect of transferring resources from domestic taxpayers to exporters or to importing countries. They create a class of favored borrowers which enjoys governmental support in our credit markets, thereby influencing the allocation of credit and ultimately the direction of investment flows. To the extent that investment is thereby diverted from its most profitable uses, the long run return to capital also will be reduced. Moreover, export credit subsidies tend to benefit only some exporters, not all exporters. There is inequity as well as inefficiency in permitting some producers to receive credit at preferential rates, while others must pay the full market price for their borrowing.

Some observers have made the point that U.S. export credit subsidies are necessary to offset foreign export credit subsidies. The argument goes that U.S. capital and labor that would have gone to export markets in the absence of foreign subsidies are now forced to seek less productive returns in other markets. This is certainly true to a point, but does not indicate whether the cost of averting such resource shifts (i.e., through matching Eximbank subsidies) is offset by productivity gains. The best solution is to get rid of foreign export credit subsidies, not blindly match them.

Still other observers have suggested that officially supported export credits can help improve the U.S. trade balance. But that effect can be only marginal and temporary under any budget which is now foreseeable. In fiscal year 1980, the Export-Import Bank's direct loan disbursements amounted to about 1.4 percent of U.S. total merchandise exports, albeit a higher percentage in the capital goods sector. So even a major increase in Eximbank's direct loan budget—a difficult proposition in the present fiscal environment—would aid only a small proportion of total U.S. exports, and it would hardly affect our overall trade balance.

Improved export competitions

The foundation of the Administration's policy to improve U.S. export competitiveness is composed of measures which will improve productivity in all sectors of the economy including the export sector. The Administration's economic program has four points:

(1) A stringent budget policy to reduce the rate of growth in Federal spending.

(2) A non-inflationary monetary policy, developed in cooperation with the Federal Reserve.

(3) A regulatory reform program to eliminate unnecessary government regulations, thereby reducing business costs.

(4) An incentive tax policy to increase the after-tax returns for saving and investment.

A stringent budget policy will mean increased reliance on the free market, with a reduction or elimination of those subsidies and regulations that reward inefficiency. We intend, as the President has said, to allow the private market to determine the activities in which it wants to invest. This will encourage efficient firms to expand, and their output will be available both at home and overseas at competitive prices, quality and servicing.

A policy of slow, steady growth in the money supply will substantially reduce inflation. As inflation rates decline, interest rates will follow. A low inflation rate will, over time, assure adequate price competitiveness of U.S. exports, while low interest rates will facilitate their financing. Thus, we expect significantly decreased demands on the Eximbank budget as U.S. interest rates decline.

A regulatory reform program that eliminates unnecessary constraints on productivity will also help exports by lowering cost of production, making U.S. goods and services more price competitive. In addition, the Administration is considering several policy proposals aimed specifically at easing the burden of export disincentives, in order to permit American firms to compete on a more equal footing with those of other countries.

A new tax program of Accelerated Cost Recovery will establish an improved system for writing off the costs of business investments. This will increase the incentives to invest, resulting in increased productivity and economic growth. Further, reductions in marginal tax rates for individuals will increase the flow of private savings to finance investment. These personal tax rate changes will encourage work effort and foster productivity growth. U.S. exports will increase as U.S. industry is able to expand, renovate and modernize its production facilities and as the tax burden on the U.S. economy is reduced.

The role of the Export-Import Bank

In the context of our overall economic policy, the U.S. Export-Import Bank is needed to fight foreign official export credit subsidization and, when appropriate, to assume risks the private capital market is unwilling to take. It has a central role to play in supporting the negotiations to strengthen the International Arrangement on Export Credits. The Arrangement aims to limit and even eliminate the use of export credit subsidization by governments, which increasingly distorts international trade and capital markets. The magnitude of these subsidies was estimated by the OECD in early 1980 at as much as $5.5 billion, and we estimate them at over $7.0 billion now.

The Arrangement, and similar understandings on financing of aircraft and nuclear power plants, do not place adequate limits on export credit subsidies or provide means of enforcing such limits as are specified. Instead, most of the discipline in these understandings is provided by the threat of having subsidies matched by other parties, thereby denying export advantage to the subsidizing countries. By offering special subsidies in selected cases, Eximbank provides the United States a major tool with which to press for negotiated reduction in subsidies allowed under the Arrangement. An efficient and prudently used Eximbank, therefore, is needed to support U.S. exports against the predatory financing practices of other governments, particularly in the capital goods sector.

Export credit subsidies

In early 1980, the OECD Secretariat estimated that export credit subsidies by the major OECD exporters in 1979 totalled $5.5 billion. Using the same methods, we roughly estimate the figure is over $7 billion for credits outstanding at the end of 1980. Some of the major countries and their estimated subsidies are:

TABLE 1 [1]

[In millions of U.S. dollars]

	1979	1980 (estimate)
France	$2,342	$3,070
United Kingdom	1,080	1,140
Japan	566	690
United States	315	660
Germany	215	370

[1] Subsidies were derived by the OECD Secretariat by multiplying official credits outstanding by the difference between yields on government bonds for a given currency and the minimum matrix rate. Extrapolations have been used to approximate the 1980 figures for official credits outstanding.

Why do countries subsidize exports?

Our trade competitors have been reluctant to reduce their export credit subsidies for six main reasons:

First, many of these countries suffer trade or current account deficits. Rather than taking fundamental steps to redress the imbalances, such as allowing exchange rates to move freely, these countries prefer the more expedient if ultimately ineffective course of adopting export credit subsidies.

Second, their economic policies frequently are biased towards state intervention for favored sectors, among them the export sector. There is no natural repugnance for state intervention, no understanding that this course may only worsen their underlying competitive position.

Third, there seems to be a belief that credit subsidization will purchase increased exports and thus is a relatively cheap alternative to unemployment and welfare payments.

Fourth, many have what we would consider an irrational conviction that there is some "proper" or "natural" level for interest rates, unreflected in week-to-week, month-to-month or even year-to-year market fluctuations. These countries argue that stable and fixed export credit rates reflect this underlying "proper" level of interest rates.

Fifth, in an aggressive version of the infant industry argument, some countries wish (1) to help their industries increase their scales of production, (2) to overcome inefficiencies or other presumed disadvantages or (3) to encourage industrial sectors favored by the government.

And finally, there is a belief that export credit subsidies ease the debt burdens of the LDCs that receive the credits; export credits become a kind of foreign aid, in this view.

The U.S. view of export credits is markedly different from that of some of our trade competitors. We have pointed out to our trading partners that export credit subsidies, when they are met by offsetting subsidies abroad, usually do not change the competitive balance. For every French or British export credit subsidy, there may be a Japanese, Canadian or American export credit subsidy. The only result, in the end, is higher budgetary expenditures, higher taxes, and worsened effective terms of trade.

We have pointed out that a disciplined growth in the money supply, whatever its short run implications for interest rates, is necessary to control inflation. Controlling inflation will ultimately mean a far more stable level of interest rates than ill-conceived monetary intervention. To hold export credit rates or other preferred sector credit rates at an artificial, rigid level only prolongs the time needed to reach a true equilibrium position.

Using export credit subsidies to attempt to maintain employment artificially as an alternative to welfare or unemployment payments is short-sighted. Rather than enhancing factor flows to more efficient industries, the subsidies merely prolong the current inefficiencies and may be offset by other forces, such as an upward movement in exchange rates. The cost of the credit subsidies to the other sectors of the economy seems to be ignored. For these reasons, export credit subsidies may hinder rather than enhance export competitiveness over the long run.

The "infant industry" argument is also unpersuasive. There is no evidence that the public sector can pick export opportunities better than the private sector, witness the supersonic Concorde. In any case, the infant industry argument has occasionally been used by the governments of industrial countries which should have no need of it.

Finally, as to the LDC argument, it should be remembered that many export credit subsidies accrue not to the importing country alone, but to the exporting company. Moreover, the LDCs that receive the largest shares of these subsidized credits are precisely the LDCs that require such resource transfers the least; most are advanced developing countries. Nor are the projects receiving export finance always those that most help the LDC economies. Export credit subsidies are offered primarily to serve the favored industries of the exporting countries, rather than the interests of the developing countries.

Overall U.S. negotiating strategy

In our efforts to induce other countries to lower their export financing subsidies, the United States has found that simply matching foreign subsidies through Eximbank does not necessarily motivate change. Matching foreign subsidies is a helpful way of combatting the subsidies, but is not by itself decisive.

In the period 1977-1980, for example, direct credit authorizations by the Export-Import Bank increased nearly seven-fold, from $700 million to $4 billion. These loans were offered at rates well below the Bank's marginal cost of money and involved sizable subsidies (although Eximbank typically financed a smaller portion of a transaction at slightly higher interest rates than its competition). Yet we were no closer to an acceptable degree of discipline on export credit subsidies at the end of that period than we were at the beginning, because the political will to change was lacking.

To help create that political will, the Administration developed a coordinated program of policy instruments supporting our negotiating effort. The object was to give these negotiations maximum visibility in bilateral and multilateral contacts other than in the Export Credits Group. For example,

Secretaries Regan and Baldrige and Ambassador Brock stressed the importance of the credit subsidy issue in virtually every meeting with their counterparts in the countries participating in the negotiations.

The United States sought and won the commitment of the OECD Ministers to resolve this problem before the end of this year, and it also was discussed at the Ottawa Summit.

Domestically, the Administration has attempted to build the broadest possible consensus in favor of our negotiating position. The Commerce Department and USTR, with Treasury and Eximbank, convened a series of meetings with private industry to brief them on our strategy and to listen to their advice and comments. We also have met on a regular basis with congressional staff experts to ensure that you are well briefed on our actions and that we have your support. This is not merely a technical matter to be resolved by international financial experts. It is a matter of increased political concern.

To complement these political steps, the Executive Branch is considering the trade policy tools which might be available to support our negotiating effort—for example:

Whether and when to use remedies available in domestic trade legislation; whether to initiate a trade complaint under the GATT or Subsidies Code dispute settlement provisions; and whether to institute a review in the GATT of the standing of export credit subsidies under the Subsidies Code.

The latter approach would be designed to extend the Subsidies Code's discipline to sectors such as nuclear power which has represented 20 to 25 percent of the dollar amount of Eximbank"s loan authorizations in recent years, but which is not now subject to the Arrangement's interest rate discipline.

Arrangement negotiations

The object of all these U.S. efforts for nearly three years has been to improve the International Arrangement on Export Credits by bringing its minimum interest rate requirements closer to financial market conditions. The first concrete result of out efforts appeared in 1980 when the Wallen Report, prepared by the Chairman of the OECD Export Credits Group, proposed two simple alternatives to the static and rigid interest rate matrix of the Arrangement.

The first was to weight the yields of government bonds in the five major trading currencies by their weights in the IMF's Special Drawing Right (SDR). The basket interest rate that emerged—as the sum of the five weighted interest rates—would be the new minimum export credit rate applicable to all currencies. This alternative was titled the Uniform Moving Matrix.

The second alternative, the Differentiated Rate System, would have used the secondary market yields on long-term government bonds to determine the minimum export credit rate for each country directly. Under either alternative, the minimum export credit rate would have been adjusted periodically to take account of financial market movements.

The United States indicated a preference for the Differentiated Rate System since it more effectively reduced export credit subsidies and is the more market-oriented system. Most other countries preferred the other system as a less drastic change from their traditional practices. One or two countries preferred no change at all.

Despite commitments made at both the 1980 OECD Ministerial and the 1980 Venice Summit to seek a solution, we found that the European Communities were able to offer no more than a trivial increase in interest rates in that year, with no change in the method for setting minima. The United States labeled this offer "grossly inadequate", but said we would accept it while continuing to press for a more equitable system on the lines of a differentiated rate system. However, Japan refused to be put in the position of having to charge a substantial premium for its export credits while other governments could continue to subsidize with impunity. As a result, no further changes were made in the Arrangement in 1980.

Recent progress

After the May 1981 meeting of the Arrangement participants, which was little more than a replay of the December 1980 meeting, it was clear that the EC would have to revise its negotiating mandate if progress were to be made. In September of this year, the Council of EC Finance Ministers finally approved a mandate that began to take account of some of the financial market movements of the past year. The EC initially suggested that a matrix with minimum interests rates of between 9.5 and 9.75 percent for loans to LDCs should apply to most currencies.

The EC did concede that Japan, with financial market rates below those of most other countries, should be allowed to charge a minimum interest rate for the yen that was below this suggested matrix. As a means of offsetting Japan's apparent success in capital goods exports, however, the EC suggested that the Japanese Eximbank be forced to charge a premium above the rate used by Japanese commercial banks (the Long Term Prime Rate). The EC argued that this premium is justified because of the advantages to official lending. Among these advantages are (1) the assured availability of financing from official—as opposed to private—sources for exports, (2) official repayment maturities slightly longer than the private commercial banks could offer, (3) the ability to accept repayment risks that private lenders might be unwilling to accept, and (4) the ability of official institutions to offer a fixed interest rate that a buyer may have up to a year to accept or reject.

The United States felt that the EC position of 2.0 to 2.5 percent increases in the in the basic matrix rates was an exceptionally modest first step towards the ultimate goal of aligning official credit rates with market rates. As Chart 1 shows, an increase of 5 or 6 percent would have been preferable. The history of the negotiations made clear, however, that immediate increases of that magnitude were not likely to be accepted by the EC and many others, who feared disruption of export markets.

The United States therefore suggested that an increase in the matrix rates of 4 percent—which would have brought the overall matrix up to about 12 percent—would be much more acceptable. The EC demurred, but proposed a compromise to break the impasse. The matrix rates would be set somewhat higher than the EC had initially proposed, but somewhat lower than the United States would have preferred. In addition, a commitment was made to revise the rates further at a special meeting of the Arrangement participants, scheduled for March 1982, two months prior to the regular May meeting.

The compromise matrix was accepted on October 20 and will take effect Nov. 16. With the old minimum interest rates in parentheses for comparison, it stands as follows:

TABLE 2

[In percent]

	2–5 years		5–8.5 years		Over 8.5 years	
Rich country	11.0	(8.5)	11.25	(8.75)		([1])
Intermediate	10.5	(8.0)	11.00	(8.50)		([1])
Poor country	10.0	(7.5)	10.00	(7.75)	10.0	(7.75)

[1] Not applicable.

The suggested minimum interest rate for the yen, (and other currencies that might have commercial lending rates below the new matrix rates) will be 9.25 percent.

Japan was concerned that it would be required to impose a negative subsidy on Japanese Eximbank lending, while countries with higher interest rates still would be free to subsidize to a degree. However, the obvious benefits of reducing the amounts of subsidies presently offered by its foreign, especially European, competitors induced the Japanese Government to accept the compromise.

Next steps

The negotiated increases in the Arrangement matrix are the most significant changes since the inception of the Arrangement's predecessor agreements in 1975. Nonetheless, we regard these changes as only a first step towards our goal of a differentiated rate system, with minimum export credit rates set at the cost of money to governments and subsidization thus kept to a minimum.

The next step will be taken at the March 1982 meeting of the Participants. Should financial markets remain at their current levels by the time of that meeting, we would expect a substantial increase in the basic matrix rates to bring them much closer to the cost of money to governments.

We would also expect to find a better means of accommodating the countries that are likely to have interest rates below this matrix. An artificial interest rate floor that bears no relationship to financial market rates cannot be expected to serve as a lasting means of avoiding friction in export credit competiton.

Sector agreements

Another route that we have explored in our efforts to reduce subsidies is to pursue sector agreements for areas such as aircraft or nuclear power. These agreements could be exceptionally valuable inasmuch as a few sectors consume large amounts of the Eximbank budget. For example, the aircraft and nuclear power sectors combined consumed 42 percent of the Bank's budget in fiscal year 1980 and 48 percent in fiscal year 1981.

In early 1980, the U.S. Government began to discuss the idea of reducing export credit subsidies for large commercial jet aircraft with the British, French and German governments. These three governments provide the official export financing for the Airbus, the most important competitor against American producers of large aircraft. After lengthy talks spanning 18 months, all four governments were able to harmonize to reduce their practices to reduce export credit subsidies for large aircraft.

The common line which all have unilaterally adopted has the following general provisions: (1) a minimum U.S. dollar interest rate of 12 percent, a minimum French franc interest rate of 11.5 percent and a minimum Deutschemark interest rate of 9.5 percent for official direct credit; (2) a normal maximum direct credit support of 62.5 percent or 42.5 percent of the total price, depending on the repayment schedules of intermixed private and official financing and (3) maximum spare parts support of 15 percent of the aircraft price for the first five aircraft of a type in a fleet, and 10 percent for the sixth and following aircraft.

American aircraft manufacturers have requested that the four countries consider allowing guarantee coverage—that is, no direct official subsidization—for private financing with repayment terms longer than the ten-year maximum in the OECD Aircraft Standstill. The manufacturers argue that the economic life of most aircraft is longer than 10 years and that official financing should reflect that longer life. The members of the Airbus Industries consortium have said they see "serious obstacles of principle and practice to such an extension in the repayment terms", while the U.S. Government has argued that it would help reduce subsidies.

The U.S. Government is preparing a study in support of longer repayment terms, which we shall discuss with the Airbus Industrie governments. The European governments have made it clear to us that any Eximbank offer of guarantees with a repayment period longer than ten years would mean that the other principles of the common line would not be respected by the European side.

The next step on the subject of sector financing will be made early next year, when we shall discuss with the Europeans the merits of guaranteeing private financing at terms longer than ten years. We shall also seek to bring the minimum interest rates for aircraft further into line with existing financial market rates.

Although we have focused up until now on commercial jet aircraft because these are large consumers of the Eximbank budget, we are also concerned about export credit subsidies for general aviation aircraft. We have had informal conversations with some of the countries that produce these types of aircraft, and we intend to press for stronger controls over export credit subsidies in this area.

The second most important possible sector agreement after aircraft is one governing financing for nuclear power plants. These plants may cost a billion dollars apiece, while the minimum interest rates offered have been as low as 7.6 percent. Given the long construction period for the plants and the relatively long repayment periods for official finance, we estimate that the present value of the export credit subsidies may range from $200 million to $450 million per billion dollars of exported plant. The nominal subsidies over the life of the loan may even approach the initial export value of the plant. As an example, an annual interest rate subsidy of 8 percent for a nuclear power plant worth $1 billion could equal $950 million in nominal subsidies over the life of the loan. Clearly, this is an area ripe for negotiation.

We intend to approach the other major nuclear power exporters before the end of the year with proposals similar to those put forward in the aircraft sector. It is too soon to tell what kind of reception we shall get from the other nuclear exporting countries.

CONCLUSION

In summary, we have taken important strides toward reducing export credit subsidies, reducing the subsidies in areas covered by the Arrangement by as much as 40 percent. We have a useful informal common line on aircraft.

We have broken through the impasse on the export credit negotiations and established some basic principles. Other countries now understand that export credit rates should not remain unchanged despite movements in the financial markets. They also understand that all currencies need not have the same minimum export credit interest rate. We have started the process of reform.

However, much remains to be done. The Arrangement's minimum rates must be brought much closer to financial market rates. To have export credit agencies offering loans at rates (e.g., 10 percent) below those which the World Bank charges, currently 11.6 percent, is ludicrous.

We need to continue to reduce subsidies in the aricraft sector by raising our common line's rate from 12 percent for dollars to 14 to 15 percent. We need stronger controls on export credit subsidies for general aviation aircraft. We need to find some means of reducing export credit subsidies for nuclear power plants. All of these points indicate that this Administration will continue to give high priority to reducing export credit subsidies.

STATEMENT OF WILLIAM H. DRAPER III, PRESIDENT AND CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. **Draper**. Thank you, Mr. Chairman. I would like to read a part of the statement that I have, and will submit for the record the entire statement.

Chairman **Gibbons**. Proceed in any way you wish.

Mr. **Draper**. It is a pleasure to be here today to participate in these discussions on overall U.S. trade policy. I am also glad to be able to report on the progress we have been making in the area of export credits.

Today, as never before, exports are critical to the overall performance of the U.S. economy. Exports of goods and services as a share of U.S. GNP rose 4.3 percent in 1970 to 8.2 percent in 1980 while merchandise exports as a share of U.S. goods production increased from 9.3 percent in 1970 to 19.2 percent in 1980. The number of U.S. workers dependent on exports has risen from under 2.9 million in 1970 to 5.1 million in 1980. While total U.S. employment has grown by an average annual rate of only 2.2 percent during the last 10 years, the corresponding rate for export-related employment has been over 9 percent.

We recognize that trade policy must be an essential element of our efforts to revitalize the economy. Our trade policy is straightforward—we believe in free trade and the interplay of the same free market forces that govern our internal markets. We are opposed to protectionism and artificial incentives that interfere with the movements of trade. Our priorities are to reduce barriers to trade and distortions of the international market.

We will be aggressive and innovative in helping U.S. industries improve their competitive position throughout the world. But at the same time we cannot ignore the fact that the decrease in the competitiveness abroad of U.S. industries is due in large part to the poor performance of our domestic economy. That is why U.S. trade policy—and this includes Eximbank—cannot be separated from policies aimed at improving the overall economic health of our nation.

The Export-Import Bank has always played an important role in U.S. trade policy. Its programs may have changed throughout the years, but its basic purposes are as vital today as they were then. As our statutory charter states, the "objects and purposes" of the Bank are ". . . to aid in financing and to facilitate exports. . . ." In doing so, we are directed to provide financing that is competitive with what other export credit instrumentalities provide to help the exporters in their countries. Since its inception, Eximbank has provided loans, guarantees and insurance which have supported over $100 billion of U.S. exports. In terms of employment, our authorizations in fiscal year 1981 alone should assist at least 450,000 jobs.

At the same time, Eximbank does not compete with private financing, but rather supplements it. The Bank fills an important gap in private financing. Private financial institutions usually will not provide the long-term, fixed-rate financing necessary for large projects or very expensive equipment, and sometimes a guarantee from Eximbank is necessary to secure some participation of private financing in the longer term transactions. Eximbank also plays an important role in protecting against the risks of selling abroad which are not inherent in domestic sales.

As substantial as our accomplishments have been, they have not been achieved without cost. In our efforts to be competitive as called for by our statute, we have always kept the rate at which we lend money as low as possible. In recent years, as interst rates have soared and with them, our own cost of money, it has become increasingly difficult for us to operate on the self-sustaining basis that has characterized the Bank's operations since it was established. Over the years, for example, with the $1 billion in capital provided by the Treasury in 1945, Eximbank has made annual profits on its operations and has paid over $1 billion in dividends and built up $2 billion of reserves.

Now, however, with extraordinarily high interest rates our borrowing costs have skyrocketed far beyond the rate at which we made the loans that we are now actually funding. On September 1, Eximbank paid 15.5 percent interest on funds borrowed through the Federal Financing Bank [FFB]. That is 1.9 percent higher than the rate at which Eximbank borrowed in June and almost 5 percent above our current lending rate. In fiscal year 1980 Eximbank's net income was $109.7 million; in fiscal year 1981 it was only $12 million. That will be the last profitable year for some time.

We will suffer our first loss in fiscal year 1982, and it could be as high as $200 million. At these levels, Eximbank faces the prospect of depleting half of our reserves by the end of fiscal year 1984, and the remaining half before the end of fiscal year 1986. While we do not expect high interest rates to persist indefinitely, serious consideration must be given to safeguarding the financial condition of the Bank.

We may face a sharp conflict between our mandate to be competitive and our policy of operating on a self-sustaining basis. We will continue our efforts to provide competitive financing, but at the same time we must restore the financial soundness of the Bank. I have already taken a number of steps to correct the situation.

In July, Eximbank's direct lending rate for nonaircraft transactions was raised from 8.75 prcent to 10.75 percent. Unless interest rates come down very soon, we may have to consider raising our rates again. We simply cannot afford this large gap between our borrowing costs and our lending rates.

In August of this year we achieved a major breakthrough on interest rates for aircraft financing. The United States, France, Germany and the United Kingdom discussed a harmonization of maximum interest rates on competing aircraft at 12 percent, with a maximum term of 10 years. This reduces substantially the subsidy element in aircraft transactions, to which Mr. Leland has referred. We hope this marks the beginning in international efforts to eliminate export credit subsidies on such items. Another review of aircraft interest rates is scheduled for February 1982.

In addition, Eximbank will generally no longer provide direct credits for sales to developed countries, lines of credit or sales of older generation aircraft, although there may be some exceptional circumstances to justify our doing so for an individual transaction.

The Bank has also begun to charge a one-time 2 percent fee for each credit authorization, based on the total Eximbank credit value. This fee will have the effect of improving the Bank's net income now, whereas increased interest rates will not affect Eximbank's financial condition for several years because of the normal lag between authorization of the loan and the actual disbursement on that loan.

The United States has been working for several years to increase interest rates under the International Arrangement on Guidelines for Officially Supported Export Credits. The Arrangement, first entered into in April 1978, established minimum cash payments and interest rates, created uniform maximum repayment periods and defined other lending standards. Consistent with our policy of free trade and free markets, our goal has been to eliminate export credit subsidies.

These subsidies can distort the market, destroy the benefits of comparative advantage and promote inefficient industries in subsidizing nations. Early last month I participated with the U.S. delegation in the OECD meetings to change the present Arrangement. The result of those negotiations has been previously summarized by Mr. Leland, and I won't go into that.

We are pleased with this agreement. It is a major step toward our goal of eliminating export subsidies, but it is not enough. The participants have agreed to meet again in early March, and we are determined to press for further substantial increases in interest rates at that time.

It has always been our position to supplement, not compete with, the private sector. But the need to work with the U.S. banking community becomes all the more important to Eximbank as we do our part to reduce the size of the Federal budget and hold down Government borrowing. Including the President's September 24 reductions, Eximbank's direct lending budget request for fiscal year 1982 will be reduced by $528 million to $3.872 billion. The new budget figures represent a challenge for Eximbank, in that in fiscal year 1981 we did approximately $5.4 billion of direct credit activity.

To allocate our resources more efficiently is a major challenge, but we plan to continue to maintain our competitiveness with foreign export credit agencies. I believe that with careful use of our programs we can meet the demands placed on them.

To this end, I have instituted a targeted approach to Eximbank financing. We will assist only the most competitive cases, where foreign official export credit support is clearly evident. We will not support sales which would go forward without our participation. We will redouble our efforts to examine carefully all the facts of every transaction to make a considered judgment.

We will also do our best to develop innovative approaches. For example, we will be looking into the possibility of making loans denominated in Japanese yen. Since yen interest rates are lower than dollar interest rates, we would be able to make yen loans at a rate of interest which would be nominally lower—and therefore, possibly more attractive—than what we charge on a dollar loan. At the same time, with loans extended in yen at rates much closer to the market, they would involve substantially less subsidy and less cost to Eximbank.

Mr. Chairman, the high interest rates that are hurting all of us have caused a deterioration in our financial soundness and at the same time have increased the demand on our programs. The measures that are necessary to restore the health of our economy and bring down those interest rates will mean that Eximbank will have to work with more limited resources in the future. It is a challenge for Eximbank, but it is one we can meet. We will restore the financial soundness of the Bank, and we will meet the financing needs of U.S. exporters.

Thank you, Mr. Chairman, for giving me the opportunity to meet with you today. I will be pleased to answer any questions you may have.

[The prepared statement follows:]

Statement of William H. Draper III, President and Chairman, Export-Import Bank of the United States

Mr. Chairman and Members of the Subcommittee, it is a pleasure to be here today to participate in these discussions on overall U.S. trade policy. I'm also glad to be able to report on the progress we've been making in the area of export credits.

Today, as nevr before, exports are critical to the overall performance of the U.S. economy. Exports of goods and services as a share of U.S. GNP rose 4.3 percent in 1970 to 8.2 percent in 1980 while merchandise exports as a share of U.S. goods production increased from 9.3 percent in 1970 to 19.2 percent in 1980. The number of U.S. workers dependent on exports has risen from under 2.9 million in 1970 to 5.1 million in 1980. While total employment has grown by an average annual rate of only 2.2 percent during the last ten years, the corresponding rate for export-related employment has been over 9 percent.

We recognize that trade policy must be an essential element of our efforts to revitalize the economy. Our trade policy is straightfoward—we believe in free trade and the interplay of the same free market forces that govern our internal markets. We are opposed to protectionism and artificial incentives that interfere with the movements of trade. Our priorities are to reduce barriers to trade and distortions of the international market. We will be aggressive and innovative in helping U.S. industries improve their competitive position throughout the world. But at the same time we cannot ignore the fact that the decrease in the competitiveness abroad of U.S. industries is due in large part to the poor performance of our domestic economy. That is why U.S. trade policy—and this includes Eximbank—cannot be separated from policies aimed at improving the overall economic health of our nation.

The Export-Import Bank has always played an important role in U.S. trade policy. Its programs may have changed throughout the years, but its basic purposes are as vital today as they were then. As our statutory charter states, the "objects and purposes" of the Bank are " * * * to aid in financing and to facilitate exports * * *" In doing so, we are directed to provide financing that is competitive with what other export credit instrumentalities provide to help the exporters in their countries. Since its inception, Eximbank has provided loans, guarantees and insurance which have supported over $100 billion of U.S. exports. In terms of employment, our authorizations in fiscal year 1981 alone should assist at least 450,000 jobs.

At the same time, Eximbank does not compete with private financing, but rather supplements it. The Bank fills an important gap in private financing. Private financial institutions usually will not provide the long-term, fixed-rate financing necessary for large projects or very expensive equipment, and sometimes a guarantee from Eximbank is necessary to secure some participation of private financing in the longer-term transactions. Eximbank also plays an important role in protecting against the risks of selling abroad which are not inherent in domestic sales.

As substantial as our accomplishments have been, they have not been achieved without cost. In our efforts to be competitive as called for by our statute, we have always kept the rate at which we lend money as low as possible. In recent years, as interest rates have soared and with them, our own cost of money, it has become increasingly difficult for us to operate on the self-sustaining basis that has characterized the Bank's operations since it was established. Over the years, for example, with the $1 billion in capital provided by the Treasury in 1945, Eximbank has made annual profits on its operations and has paid over $1 billion in dividends and built up $2 billion of reserves. Now, however, with extraordinarily high interest rates our borrowing costs have skyrocketed far beyond the rate at which we made the loans that we are now actually funding. On September 1, Eximbank paid 15.5 percent interest on funds borrowed through the Federal Financing Bank (FFB). That is 1.9 percent higher than the rate at which Eximbank borrowed in June and almost 5 percent above our current lending rate. In fiscal year 1980 Eximbank's net income was $109.7 million; in fiscal year 1981 it was only $12 million. We will suffer our first loss in fiscal year 1982, and it could be as high as $200 million. At these levels, Eximbank faces the prospect of depleting half of our reserves by the end of fiscal year 1984, and the remaining half before the end of fiscal year 1986. While we do not expect these interest rates to persist indefinitely, serious consideration must be given to safeguarding the financial condition of the Bank. We may face a sharp conflict between our mandate to be competitive and our policy of operating on a self-sustaining basis. We will continue our efforts to provide competitive financing, but at the same time we must restore the financial soundness of the Bank. I have already taken a number of steps to correct the situation.

In July, Eximbank's direct lending rate for non-aircraft transactions was raised from 8.75 percent to 10.75 percent. Unless interest rates come down very soon, we may have to consider raising our rates again. We simply cannot afford this large gap between our borrowing costs and our lending rates.

In August of this year we achieved a major breakthrough on interest rates for aircraft financing. The United States, France, Germany and the United Kingdom discussed a harmonization of minimum interest rates on competing aircraft at 12 percent, with a maximum term of 10 years. This reduces substantially the subsidy element in aircraft transactions. We hope this marks the beginning in international efforts to eliminate export credit subsidies on such items. Another review of aircraft interest rates is scheduled for February 1982.

In addition, Eximbank will generally no longer provide direct credits for sales to developed countries, lines of credit or sales of older generation aircraft, although there may be some exceptional circumstances to justify our doing so for an individual transaction.

The Bank has also begun to charge a one-time 2 percent fee for each credit authorization, based on the total Eximbank credit value. This fee will have the effect of improving the Bank's net income now, whereas increased interest rates will not affect Eximbank's financial condition for several years because of the normal lag between authorization of the loan and the actual disbursement on that loan.

The United States has been working for several years to increase interest rates under the International Arrangement on Guidelines for Officially Supported Export Credits. The Arrangement, first entered into in April 1978, established minimum cash payments and interest rates, created uniform maximum repayment periods and defined other lending standards. Consistent with our policy of free trade and free markets, our goal has been to eliminate export credit subsidies. These subsidies can distort the market, destroy the benefits of comparative advantage and promote inefficient industries in subsidizing nations. Early last month I participated with the U.S. delegation in the OECD meetings to change the present Arrangement. After months of intensive negotiations, as you know, we reached an agreement to increase minimum interest rates on export credits to which Japan and all the major industrialized nations in Europe and Japan have concurred. The agreement calls for a 2.5 percent increase in rates for rich and intermediate countries. Interest rates for rich and intermediate countries will vary according to the terms of a loan from 10.5 percent to 11.25 percent. Poor countries will be charged only 10 percent regardless of term. Since Japanese domestic market rates are well below these rates, a special 9.25 percent rate was agreed upon for credits in Japanese yen. This may seem low, but it should be remembered that it is well above the Japanese private market rate of 8.5 percent which is expected to be increased to about 9 percent.

In addition to the increased interest rates, there will be improved notification of "mixed credits"—that is, the combination of foreign aid grants and export credits for the same project. The agreement calls for "prior notification" of mixed credits with a grant element of up to 25 percent and "prompt notification" of mixed credits with a grant element of more than 25 percent. The requirement of prior notification has generally resulted in the past in the elimination of the type of transaction to which the notification applies, since it gives other export credit agencies an opportunity to extend matching offers. We believe we can look forward, therefore, to substantially less use of "mixed credits." The new guidelines will go into effect on November 16.

We are pleased with this agreement. It is a major step toward our goal of eliminating export subsidies, but it is not enough. The participants have agreed to meet again in early March, and we are determined to press for further substantial increases in interest rates at that time.

While we want to reduce unnecessary subsidies, there is still a legitimate role for officially supported direct export credit at this time. In most countries private financial institutions are not yet ready to step in and take on the role played by official export credit agenices. I have called upon the U.S. banking community to mobilize the resources of the private sector to meet the financing needs of U.S. exporters, but we want to make sure that U.S. companies don't lose sales because of uncompetitive financing.

As I said before, it has always been our function to supplement, not compete with, the private sector. But the need to work with the U.S. banking community becomes all the more important to Eximbank as we do our part to reduce the size of the federal budget and hold down government borrowing. Including the President's September 24 reductions, Eximbank's direct lending budget request for Fiscal Year 1982 will be reduced by $528 million to $3.872 billion. The new budget figures represent a challenge for Eximbank—to allocate our resources more efficiently but continue to maintain our competitiveness with foreign export credit agencies. I believe that with careful use our programs can meet the demands placed on them.

To this end, I have instituted a targeted approach to Eximbank financing. We will assist only the most competitive cases, where foreign official export credit support is clearly evident. We will not support sales which would go forward without our participation. We will redouble our efforts to examine carefully all the facts of every transaction to make a considered judgment.

We will also do our best to develop innovative approaches. For example, we will be looking into the possibility of making loans denominated in Japanese yen. Since yen interest rates are lower than dollar interest rates, we would be able to make yen loans at a rate of interest which would be nominally lower—and therefore, possibly more attractive—than what we charge on a dollar loan. At the same time, with loans extended in yen at rates much closer to the market, they would involve substantially less subsidy and less cost to Eximbank.

Mr. Chairman, the high interest rates that are hurting all of us have caused a deterioration in our financial soundness and at the same time have increased the demand on our programs. The measures that are necessary to restore the health of our economy and bring down those interest rates will mean that Eximbank will have to work with nore limited resources in the future. It is a challenge for Eximbank, but it is one we can meet. We will restore the financial soundness of the Bank, and we will meet the financing needs of U.S. exporters. On the international front, I am encouraged by recent steps to reduce export credit subsidies, and we will be seeking to make further progress in the negotiations to take place this spring. At home, we can and will manage our resources more carefully and more innovatively and exercise the best judgment of which we are capable. I am confident that Eximbank can do more with less.

Thank you, Mr. Chairman, for giving me this opportunity to be here today. I will be pleased to answer any questions that you or the members of your Subcommittee may have.

Chairman **Gibbons**. Thank you, Mr. Draper.

We are all sorry to hear about the deteriorating conditions of the Bank. Do other members of the panel have statements they would like to make at this time?

First of all, I applaud the efforts that have been made so far, and I wish you success in the rest of the efforts in trying to get control of this interest subsidy matter. I realize that as other nations subsidize, we find ourselves at a competitive disadvantage, and I have always thought it rather ridiculous to get into the subsidy business, particularly subsidies like purchase subsidies, finance subsidies.

Is our goal to have an international agreement on these kinds of subsidies?

Mr. **Leland**. Mr. Chairman, that is our goal: to have an effective international agreement.

Chairman **Gibbons**. You have the OECD agreement?

Mr. **Leland**. Yes; we have an agreement which, as we say, is a beginning. We started out with the mere fact of having an agreement that goes back to where we set the interest rates at a much lower rate than we have just established. We now have what is a more effective agreement with the major trading partners who do the export subsidies.

We have managed to start from a rather low base, but of course, at a time when interest rates were lower, and gradually we are bringing the rates up. As I said earlier, most countries are coming to see how expensive these subsidies are, and that it doesn't necessarily accomplish any of the objectives one might suppose. This is because, for one thing, when everybody is subsidizing to compete with everyone else, it doesn't give anyone any competitive advantage.

All it does is cost the particular governments involved money. It subsidizes a certain element of the economy as against other elements of the economy, without any particular valid economic reason for doing it.

The argument that it helps the LDC's is not really valid, because most of the benefit goes to a very few of them, the ones most able to pay the actual market rates, thus it is not of particular benefit there. And it isn't always selling LDC's the particular products that are absolutely needed from a development standpoint. Basically, I think we now have in the OECD agreement the framework that we need.

What we are trying to do, as I mentioned, is move to a differentiated rate system within this agreement, where everyone will agree that they are going to charge their own market rates, and that basically what an export-import bank will provide is pure cover. That would give the kinds of guarantees that are needed for projects of this size, and would provide a certain facilitation of matters, but Eximbanks would not lose a lot of money by subsidizing the exports. I think we now do have the agreement, and it is a matter of making the agreement move ahead, so that it finally reaches the eventual objective.

Chairman GIBBONS. I read somewhere or heard somewhere the other day that there is about $5 billion worth of export subsidy issued a year. Is that a correct figure?

Mr. LELAND. The figure now is anywhere from $5 to $7 billion a year, it is estimated, taking the difference between the interest rate that is charged as a long-term prime rate of each country that does the subsidy, and the loans they are making, and adding up that differential. It comes up somewhere around $7 billion in cost to all the countries involved.

Chairman GIBBONS. Who is the largest offender?

Mr. LELAND. It has been a variety of countries. France has always been a great supporter of this as a method of doing business, but there are others within the European Community that have just as strongly been for it, the idea being that they feel the only way they are going to make export sales is to use these subsidies. It is ingrained in their thinking. Our job has been to try to change that thinking, and I think we are starting to do that.

Mr. DRAPER. I would be a little more specific on that. I would say that France is definitely the worst offender, and England is a close second. I think that England alone in 1980 is known to have spent $1 billion in subsidy. In France we have known right along they have invested a lot more in subsidy than England, so between the two of them they take up a lot of the $7 billion that Mr. Leland spoke about.

Chairman **Gibbons**. What tools do we have in dealing with this kind of subsidy?

Mr. **Leland**. To begin with, we have the tools of our own persuasion, of showing them what we are trying to do, of how this is counterproductive. To some degree they already realize it, because they don't allow the subsidies among themselves. Within the Community it is not permitted. So that is a very effective tool.

The second effective tool is the fact that if they use these subsidized credits in some cases and they see that they won't get a competitive advantage because you will simply watch the rate, that will reduce the use. It is another method of trying to bring them around.

Mr. **Draper**. We have extended terms to as long as 20 years recently when we made a loan to the Ivory Coast to try and beat out France for an export to that country. I think that is very difficult for the French because they can't go out that far typically. France has a difficult time raising funds in Eurodollars that are beyond a 7-year term. That is one tool we have used pretty aggressively, but we will have a lot more opportunity to use it more in the future, and I expect we will if they don't keep coming up in interest rate.

As mentioned earlier, I think that this agreement is only good as a step. We are meeting again on March 10, and if there isn't another notable interest rate increase at that time getting very close to market rates, much closer to market rates, why, we will be very unhappy about it.

Chairman **Gibbons**. To what extent do you trade agencies feel that U.S. exports are currently losing out due to more favorable credit terms being offered by our competitors? How much of our trade is it really affecting?

STATEMENT OF WILLIAM KRIST, ACTING ASSISTANT U.S. TRADE REPRESENTATIVE FOR INDUSTRIAL TRADE POLICY AND ENERGY, OFFICE OF THE U.S. TRADE REPRESENTATIVE; ACCOMPANIED BY STEPHEN PIPER, COORDINATOR, AEROSPACE TRADE POLICY

Mr. **Krist**. I think before trying to take a cut at that, let me just comment that I think that the Eximbank has done a superb job of trying to prevent export erosion with their resources that they have right now. Nevertheless, during this year, we have heard a lot of problems from the export community in trying to compete with foreign subsidized export credits. I think particularly during the period of time when Eximbank had a moratorium on providing credits, and also when our rates were higher than our competitors before this recent step forward.

Basically the export community is concerned on losing sales in at least three different ways, one of which is the specific head-to-head; losing the sale because U.S. terms are not as good as what is being offered by a competing country.

A second way that the United States has been losing business is by firms sourcing overseas to take advantage of better financing from other countries, in essence providing the production and the employment benefits outside this country.

Finally, by sometimes not bidding on contracts. Where firms think that financing terms are going to be very important, they may not bother spending the tens of thousands of dollars to get the bid ready and the management time that would be required to do it.

Mr. **Leland**. If I may just add to that, Mr. Chairman, the export credit issue is only one issue in what is going on in trade in general. Obviously, the change in exchange rates makes a bigger difference than export credit interest rates.

As the Chairman of the Bank pointed out, we do have methods to meet export credit competition. We can watch the rate, and we have flexibility on the term of the loan. Even within these agreements, there is an ability where necessary to derogate from the agreement; that is, to go above 10 years to meet competition. It is hard to judge when you are losing on any particular action or gaining in overall competitive terms, and it is difficult to judge what are the particular factors at work because, of course, you must look at all the factors that go into a trade balance. Export credit is just one of those factors.

Mr. **Draper**. If you want me to, I can be a little more specific in answer to your question.

Chairman **Gibbons**. All right.

Mr. **Draper**. We did a study of a variety of cases, and in aircraft cases—I am giving you two time periods between October 1978 and March of 1980, and then another time period between April of 1980 and June of 1981.

You have to remember that in each of these time periods, many of these commitments were made somewhat or quite a bit before the time period, say at least 6 months on the average.

In any event, in the period between October 1978 and March 1980, on aircraft cases we won 43 cases and lost 6. Between 1980, April of 1980 and June 1981 we won all the aircraft cases, 12 of them, and lost none of them.

That is aircraft. In nonair and nonpower cases in that same first period we won 72 cases and lost 45. In the latter period we won 65 cases and lost 17.

The reasons for these losses vary from price to export credit to aid financing and other reasons. I could go into more detail, if you are interested.

For power cases, in the first time period we won 24 cases and lost 27, and in the second period we won 16 and lost 13.

Now, this is an ongoing survey that we undertook to try to determine just the question you asked. I also have the dollar value of the export sales, but they are quite comparable to the number of cases, so I think that those figures at least set the stage.

It is obvious that we are the most competitive in aircraft. We apparently have the best edge. We are the least competitive in the power sector, and in nonpower and nonnuclear exports we are about in the middle.

Chairman **Gibbons**. You won all those aircraft cases. Did that make it easier to get an agreement on aircraft financing?

Mr. **Draper**. Not necessarily, because you see, the competition is likely to say, "Well, if financing is the difference then we will do more subsidy in aircraft, if they have even a shot at it."

Now, this was a period really before the Airbus became a significant factor, and it is much more of a dogfight between Airbus and Boeing 757-767. I would say we are probably going to have more difficulty in the future winning a high percentage of the cases.

We still expect to win the majority, but to get 12 out of 12 is not likely in the future.

Chairman **Gibbons**. Ms. Constable.

STATEMENT OF ELINOR G. CONSTABLE, DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL FINANCE AND DEVELOPMENT, DEPARTMENT OF STATE

Ms. **Constable**. If I could just add a quick comment from the perspective of the State Department, I think the general point that our ability to compete is crucial in any negotiation needs to be underlined, and while there are particular complications in particular sectors, I think you would agree that our role, our ability to be competitive in that sector, helped.

The broader question of what happens with the negotiation itself in terms of the general arrangement is also important, and there it is our view that our ability to meet the competition using whatever policy tools we have available is going to be absolutely crucial as we move ahead to try and improve this arrangement, which we all agree is just the first step.

STATEMENT OF RAYMOND J. WALDMANN, ASSISTANT SECRETARY FOR INTERNATIONAL ECONOMIC POLICY, DEPARTMENT OF COMMERCE

Mr. **Waldmann**. Mr. Chairman, if I may add a word on behalf of the Commerce Department, we have, of course, supported the Bank and have found it very useful in many of the major transactions important to the exporting community and the economic integrity of the country.

We do see the credit subsidy war, if you will, as a trade-distorting problem. We would like to see the Bank and the other country banks provide financial resources at the market rates.

In the absence of that, though, we feel the Bank must be adequately supported with financial resources and in turn use the limited resources available to the Bank in a more discretionary and targeted fashion In a sense, then, I don't believe we differ from what you have heard so far.

Chairman **Gibbons**. Mr. Tracy, you have got your own bank, haven't you?

STATEMENT OF ALAN TRACY, ASSOCIATE ADMINISTRATOR AND GENERAL SALES MANAGER, FOREIGN AGRICULTURAL SERVICE, DEPARTMENT OF AGRICULTURE

Mr. **Tracy**. Not exactly.

Chairman **Gibbons**. Not exactly? I hear complaints from our foreign trading partners that we are subsidizing agricultural products through credit terms. Is that true?

Mr. TRACY. Through the Public Law 480 program we do subsidize the credit.

Chairman GIBBONS. To what extent do we subsidize?

Mr. TRACY. The total of the title I, title II, title III is in the range of $1.5 billion for fiscal 1982. That will be down considerably from the previous year.

Chairman GIBBONS. Was that 3?

Mr. TRACY. No, $1.5 billion.

Chairman GIBBONS. I really don't know much about Public Law 480 loans. Describe to me what kinds you have got.

Mr. TRACY. What kinds we have? We have two basic groupings. First is titles I and III, and the other is title II. Title I is a long-term loan under low interest rates. Title III is really the same thing with forgiveness of the loan for completion of certain internal development projects.

By the way, title I is run by an interagency process of which the U.S. Department of Agriculture takes the lead.

Title II is direct grant to the very poorest of the poor. It has fixed tonnage requirements mandated by Congress of the volume that we are required to export under that title. There is no repayment.

Chairman GIBBONS. Do we call that a loan?

Mr. TRACY. I suppose under loan terms then properly only title I would qualify, and for 1982 that would be $765 million anticipated.

Chairman GIBBONS. Are we subsidizing the exportation of rice?

Mr. TRACY. Some rice is exported under Public Law 480, yes.

Chairman GIBBONS. Are we subsidizing any of it to South Korea?

Mr. TRACY. No, sir. South Korea is no longer a Public Law 480 recipient. Their last agreement was signed last April.

Chairman GIBBONS. Last April?

Mr. TRACY. Yes.

Chairman GIBBONS. They are still getting rice under that agreement, aren't they?

Mr. TRACY. No. The rice shipments were completed before the end of the fiscal year. That agreement was part of a multi-year agreement that had been agreed to 3 or 4 years previously. That last amount was for $27 million.

Mr. LELAND. Mr. Chairman, I think to add to that, there also is the issue, which I am sure the committee is aware of, of CCC financing in the form of a pure guarantee for sale of agricultural products. You have a normal market interest rate; the Government guarantees a certain portion of that interest rate, but it is still a market rate, not subsidized, other than by the pure guarantee ability.

Chairman GIBBONS. Are we as a government prepared to go to an international negotiation and sit down and say we are going to cut out all this stuff, we will have some kind of binding agreement that we will not subsidize through either Public Law 480 or through Exim?

Mr. LELAND. I think there are different levels on which we are trying to negotiate. In the area that Mr. Draper and I discussed in the manufacturing sector, the nonagricultural sector, the answer is certainly yes. That is what the negotiations have been about.

The agricultural sector, as everyone is aware, always has certain differences to it, and we really haven't gotten into that particular issue. We ourselves have gone to a straight guarantee at market rate for the sale of all agricultural products, and we would be happy at any time to persuade the others to do likewise.

Chairman GIBBONS. Why do we exclude agriculture from it?

Mr. LELAND. Primarily because financing of agriculture exports is not an area where our major trading partners would be willing to agree to any change at this moment. Also, we would prefer not to push this until we reach our goals in the area of prime concern, which is in the nonagricultural sector.

The agricultural area is one that could be considered down the road, but we are working first on the other areas.

Chairman GIBBONS. The reluctance to reach agreement in the agricultural area doesn't cause you any problems in negotiating on the other types?

Mr. LELAND. It hasn't; not with the countries with which we are mainly concerned. They have not raised the issue.

Mr. TRACY. Excuse me. May I point out that Public Law 480 largely goes to countries which would otherwise not be able to make those purchases. Seventy-five percent or more of the title I money must go to countries with less than a $730 per capita income. The title II goes, as I mentioned, to the very poorest of the poor.

This Government supports continuation of Public Law 480. It is a very important tool for foreign policy purposes as well as for internal development purposes.

Chairman GIBBONS. Getting rid of agricultural surpluses?

Mr. TRACY. That is a stated aim of the act, for market development purpose and for foreign financial support.

Chairman GIBBONS. So the answer is we are prepared to negotiate on everything but agriculture.

Mr. LELAND. What I said was we are not at present in that process. On agricultural trade as a whole, as has been pointed out, the CCC credits are an example of the kind of financing we would like everyone else to use. That is, just use pure cover, a pure guarantee, for commercial transactions.

The Public Law 480 is much more in the nature of aid than it is in the nature of an export credit system.

Mr. TRACY. Mr. Chairman, Public Law 480 amounts to only a few percent of our total U.S. agricultural exports. We maintain that our agricultural exports are in general not subsidized and that we do not support subsidized exports of agricultural commodities. We feel that we are rather exemplary in the world in the way that we deal with our agricultural exports.

We provide the largest market in the world for poor countries for their exports. Our duties are in general very low, and we do work with the U.S. Trade Representative on various negotiations attempting to reduce duties where we trade something off in order to get something. But we don't feel that we have anything to be the least bit ashamed of in terms of our——

Chairman GIBBONS. Let me ask you, do we ever get complaints from other countries that our agricultural exports are cutting them out of markets that they would ordinarily have?

Mr. LELAND. We do hear comments from the agricultural exporting nations, New Zealand primarily and Australia occasionally, regarding the fact that they would like agricultural exports to be covered by the agreement. But their complaints are not directed at us.

Ms. **Constable**. On the contrary, recently I participated in an international negotiation which covered, among other things, assistance to the poorer countries in the food sector. The Europeans were very unhappy because the United States was not prepared to agree to ship its food to developing countries free of shipping costs.

There wasn't a word to us at any time in the discussions about the way in which we might use the Public Law 480—title I or title II, but rather complaints we weren't providing sufficient subsidies on the transportation.

Chairman **Gibbons**. I understand USTR is currently heading up an interagency study on the importance of financing to a number of sectors of the economy. What is the status of the study?

Mr. **Krist**. Mr. Chairman, we are in the process of doing the study to, in part, get a better handle on the question you asked earlier on the trade effects. This is an interagency study under which we are reviewing how 21 different industry sectors finance their exports.

The Department of Commerce and Eximbank and ourselves are all preparing different analyses to try to identify where export financing is important, where it is unimportant, who extends it, whether it is the exporter or the importer, and on what types of terms.

Then we are reviewing these drafts with the interagency process and with the private sector advisers. We are trying to identify what kinds of gaps there may be in private sector financing and what the implications of those kinds of gaps might be and to what extent the private sector financial resources could do a more complete job of financing that.

I would anticipate that we will have this project done in about 2 months or less, and we will be using that in our input to the Eximbank on specific transactions and overall budget levels for Eximbank and the 1983 reauthorization of the Eximbank legislation, as well as to see what other policy tools we might be able to develop to expand our export competitiveness.

Chairman **Gibbons**. Where other countries are complying with the OECD arrangements, can one of our manufacturers use our trade statutes, such as our dumping, and maybe even section 301 of the Trade Act, to counter this type of financing?

Mr. **Krist**. Mr. Chairman, Ambassador Brock has emphasized and, as has been brought out here today, our fundamental objective and what we are trying to do is to get rid of the practice of subsidized export credits.

In particular, in the U.S. market it just simply doesn't make any sense to us at all to have the European treasuries subsidizing sales in our market, or us subsidizing sales in their market.

Regarding your specific question, I would like to make several points.

The first one is that in the Tokyo round agreements, at least two of those agreements—the subsidies and countervailing measures, and the agreement on trade of civil aircraft—emphasized that assistance by Government should not adversely affect the trade interests of other countries.

The GATT agreement on subsidies and countervailing measures specifically then listed trade distorting effects of export subsidies. The agreement does exclude an export credit practice covered by and in conformity with the OECD arrangement from the illustrative list of prohibited export subsidies in that agreement.

For example, an export credit for a conventional powerplant that meets the interest rate and other provisions of the arrangement would not be covered by the illustrative list of prohibited export subsidies in the subsidies code.

Aircraft and nuclear power equipment, however, are specifically excluded from the OECD arrangement and, consequently, in our view, subsidized export credits in these areas are prohibited by the code and we would be within our rights in these areas under section 301 of the Trade Act.

With respect to the subsidization of export credits on sales of any article into the United States, our countervailing duty statute provides for the application of a remedy to a trade practice found to be unfair or injurious, such as the subsidization of export credits, if it is shown that there is indeed a subsidy and that there is injury or threat of injury to U.S. industry as a consequence of the subsidy.

Under U.S. countervailing duty law, a subsidy, even if in conformity with the arrangement on export credit, is not protected from consideration of application of a countervailing duty.

I want to emphasize that such subsidies in the U.S. market simply have the effect of giving an artificial competitive advantage to a foreign manufacturer. We don't have any U.S. governmental programs to match such financing, and we don't want any.

I also want to emphasize that our objective is not to have a confrontation with anybody on this issue. We are looking forward to negotiating with our trade partners and eliminating this kind of a practice so that export credits would be extended at free market rates of interest.

Chairman **Gibbons**. Mr. Frenzel?

Mr. **Frenzel**. Thank you, Mr. Chairman.

I want to thank the panel for its testimony.

Mr. Draper, when Mr. Brock, Ambassador Brock, was before us we questioned him on the prospect which had been mentioned on several occasions of the bank subsidizing interest rates, rather than participating in loans.

Would you comment on this tactic?

Mr. **Draper**. Right, Mr. Congressman. I would say that I have not yet taken a position on that. I am willing to discuss possible pros and cons. I guess the largest "pro" would be that it would enable us to use let's say $1 billion for direct subsidy to be more competitive. That $1 billion used for subsidy might be far more effective than it would be if the same $1 billion were just a loan, a subsidy element of which might only be let's say 5 percent of that $1 billion.

On the other hand, I feel that in this particular administration, in the Reagan administration, we are not condoning subsidy as a general program. We don't want to increase the subsidy for any element in American operations other than perhaps defense and, as a result, I think it would not be in accord with the general attitude of the administration to get a lot heavier in subsidy.

So, we would prefer, I think, to work it out if we can make the Bank competitive on certain target cases and not be quite as aggressive in areas that have no competition, not be aggressive at all, in fact. Back away from any subsidy there.

One more point I might make before finishing; that is, one of the "cons" involved, in an interest subsidy. It is likely to cost more to the American taxpayer than the current method since we can borrow at a lower rate. If we subsidize banks for the differential between what they charge—about 17 percent—and the rate to a foreign purchaser—10¾ percent—it will always be a more expensive program than if we were to just borrow from the Federal Financing Bank, and make the loan ourselves. Our most recent borrowing rate was 15.5 percent.

So, I have talked to Secretary Brock about this, and he has not gotten into it thoroughly enough to decide, himself, I think, whether this is a good program.

I have also talked to Commerce Secretary Baldrige about it, and we all agree that it is worthy of study. There are elements to it that are appealing, but I don't think any of us are willing to say it is the right way to go.

Mr. **Frenzel**. You call it a subsidy to the banks. Do you think what you do now is a subsidy to the banks?

Mr. **Draper**. No.

Mr. **Frenzel**. Then why would that be a subsidy to the banks?

Mr. **Draper**. Well, as I understand the concept, the banks might make other loans and the mechanism would be a direct subsidy to them to offset how they might put their money to work in other ways. So, it expands their operation.

Mr. **Frenzel**. So does what we do right now. What we are trying to do I think is to expand our exports by making our credit competitive. I don't particularly support that way of doing it, other than the way you are doing it, but it isn't any different, really. You are using the taxpayer's money to try to facilitate sales abroad.

Right now we are not competitive because this administration has made the budget decision, we have decided to be less competitive. We have decided that we will go the negotiation route. This committee would encourage that. We think it would be nifty if we could negotiate a way to trade credits.

We admire your spirit, and we admire the modest successes that you have made so far, but don't kid yourself that you have made any brilliant negotiating success.

One of your number here said it was a modest beginning, and I think that is all that any of us would give it at this point.

Mr. **Draper**. I agree with you.

Mr. **Frenzel**. Do you agree we are competitive now?

Mr. **Draper**. No, we are not competitive. The numbers I gave you of cases won and lost was, as I pointed out, historical. I think you will find our competitiveness has deteriorated in the last year because of the high interest rates that we are paying, and our inability to go down to the depths that our foreign competition have gone in reducing their rates to predatory numbers.

Mr. **Frenzel**. You do a lot of your lending to support sales of aircraft abroad. What sectors really need trade credits to be competitive and aren't getting them today?

Mr. **Draper**. I come out of a small business environment, in view of my background as a venture capitalist. We started many, many companies from ground zero, and so I am very interested in the small business sector. And I looked into whether we are really helping them to the extent that we could and found, first of all, a lot of help and cooperation on the part of the staff any time a small business does come in for export financing.

One problem is just getting the word out to a lot of these small businesses about our programs. That is an area they haven't really focused on, or haven't come up with a solution to. I would like to get the word out better to small businesses that we do have insurance available against political risk and 90 percent against commercial risk. We also have programs that are guarantee programs to help them make their exports.

We also would like to help them get involved more in some direct credit areas where they have been excluded by past policies. In fact, we just announced very recently our program for small manufacturers which have sales of $25 million or less in the most immediate past year. They will be eligible for direct credit up to 85 percent, not loans to them but direct credit to their customers. And at the current rate of 10¾ percent, or if that rate goes up to, say, 12 percent, that would be the rate at which they could borrow. Currently, they can participate only under the discount loan program, which has been 14 percent in the past. Recently, that discount rate has come down to 13 percent, and that would be the new rate. But they also can participate in all of our other programs, of course, and we really encourage that. So I would say the small business sector is an area that perhaps has been not overlooked by the Bank, but it is an area that has not had specific attention.

Now I want to be clear that small businesses are benefitting a lot more than anybody recognizes in that they do participate in every export that goes forward that is handled by a large manufacturer. Every large piece of equipment that goes overseas has typically lots and lots of subcontracted parts. Boeing Aircraft, for an example, has done a thorough study on it, and it appears that some 50 percent of their business has been subcontracted to small manufacturers all over the country. Wisconsin benefits just as much as the State of Washington from a small business standpoint, I believe. Now, I don't want to hang my hat on that because it may not be accurately true. But I mean in general there is no way that a gear manufactured in Chicago can get overseas except on a Boeing aircraft. And a small instrument manufactured in California very often will not be exported by itself. There just isn't the facility or the capability of a small company to get it overseas except as a part of a bigger product, whether it is a tractor or a turbine generator or a Boeing aircraft.

Mr. **Frenzel**. I am sure we would concede that, but we are a little nervous that, notwithstanding the fact that you anticipate losing a couple hundred million dollars this year because of the interest rate problem, we are not going to support a number of credit sales abroad which are therefore going to be losses, and we are going to lose market share. I am sure that you are aware, as we are, of the various companies and sectors who are making these complaints. Now you indicated that you aren't going to support sales to developed countries any more, is that your statement?

Mr. **Draper**. I didn't say we wouldn't without exception, but we are going to develop a targeted approach. I should get into our targeting philosophy a little bit. We are not able to support every export that we would like to. I will start with that. On the other hand, when you are able to do everything that you would like to do, you tend to help so many people that there is water in the program. You can wring that water out and still have a tough, hard-hitting program without that excess. I would say that the areas that we are most interested in are the most competitive areas that require our help. And so if we have found out that there is real competition from governments abroad in the financing, we will try to match and and get as close to it as possible.

Now that cuts across all industries. But we are targeting away from certain products that we know don't have any competition. The Boeing 747 doesn't have any competition, and therefore we are not doing any financing for the Boeing 747. And I have said that in public, and I will repeat it, that we have no intent of letting any credits go forward for that airplane. It is a fine airplane and it was very appropriate to give it support when it was just seeding itself around the world. It became the dominant aircraft and is probably responsible for the fact that Boeing is the largest exporter in the country today and has done a fabulous job on behalf of the American public in just getting that export, taking that position of number one exporter.

On the other hand, we will support very aggressively any airplane that does meet the need, does meet our requirement of having direct competition. And the Airbus does compete with the Boeing 767, as I pointed out earlier, and 757. We are not giving any direct credit to 737's. We don't see that that is a competitive situation. That is all aircraft.

We are targeting away from oil drilling rigs because there is a 3-year backlog in oil drilling rigs to my knowledge. That may float 1 year or 6 months, one way or the other. If that changes and all of a sudden we are having a hard time finding customers for oil rigs, or we can't sell enough, and it becomes an employment problem, we will change that policy and again give direct credits for customers of oil rig manufacturers. But as of now, there is absolutely no reason to put subsidy in today for something that has no impact on employment for 3 years when we are short of money. We really are trying to tighten it down and be good managers of the money that is given to us by you, the Congress.

Now another area that we have cut out is lines of credit to foreign governments. We have done no lines of credit with one exception since I came onboard, and that is Jamaica. And that had been in the works sometime. On the other hand, we have cut off all our lines of credit where foreign governments then would have the ability to decide which of our exports should go forward. And we don't want to—when you are on an allocation program, you don't want to give away your opportunity to make a choice of which are the most important exporters to help. You don't want to allow foreign governments to make those decisions for you. And so we have cut that out. And we have turned away from rich countries. We are not making any loans to Saudi Arabia. We feel that they can pay cash. There may be a certain situation where we would not go by our rule, because there was some exceptional reason to change it. But by and large, we don't want to send our hard-earned credit money off into wealthy countries.

We had a very difficult situation with All Nippon Airways, who had ordered some 25 airplanes, which is more airplanes than we wanted to finance. Perhaps they had bought, say, a dozen prior to that time. We just said, well, we will try to help work out with your banks and your government for the financing of the remainder of this order because we knew that they did want more 767's. And it was very difficult because they are a long and valued customer, and they had bought a lot of our equipment in the past, and a very fine company. And it is very difficult to say, no, we are not going to give you our 10¾ percent money, because it is—we just have too many other places to get it and we know that you, All Nippon, can get that money from your government, and we will help you do it. And I think they will get it, and I think meanwhile the export, I expect, will go forward because they are committed to that airplane.

Mr. **Frenzel**. In other words, although you said you were going to limit your loans to developed countries, you are going to lend wherever you find a competitive problem?

Mr. **Draper**. That is the overriding guide, that is correct.

Mr. **Frenzel**. I don't see that you get any glory for lending in LDC's. Typically, they are not able to buy the most sophisticated equipment we would like to put over there. And I suppose it is the ADC's where the squeeze comes the hardest. Sometimes we don't like to lend money to Korea or Taiwan but they are the kind of buyers who are buying the kind of thing that is darn competitive. I hope that you will look at each deal, stretch your meager dollars as widely as you can, because there simply is no question to this subcommittee that you don't have enough to do a fully competitive job.

May I ask the agriculture man if he is aware of the agriculture farm bill that passed the House that has a revolving fund credit?

Mr. **Tracy**. No, it is not at this time.

Mr. **Frenzel**. As I understand it, that is a direct loan account? Is that your understanding?

Mr. **Tracy**. That is correct.

Mr. **Frenzel**. And now the Department uses its CCC program only for loan guarantees?

Mr. **Tracy**. That is correct.

Mr. **Frenzel**. And you would prefer to continue to do that?

Mr. **Tracy**. We feel the credit guarantee program, GSM-102, which has really been off the ground only about 2 years is very successful. This administration increased the ceiling for those credit guarantees from $2 to $2.5 billion. It is a very important tool. It is accomplishing a great deal of what we would like to accomplish without resorting to any budget outlays. And the administration does not support the revolving fund bills as passed in the House or the Senate at this time because they would require a budget outlay at a time when we are trying to trim back expenses.

Mr. **Frenzel**. As I understand it there is a budget outlay to appropriate the amount of money that you need to guarantee the loans under the CCC program. So although you are not making direct loans, you still have an outlay.

Mr. **Tracy**. Under the GSM-102 program we do have some outlay for internal staffing. But there is no outlay normally for the loans unless through some misfortune they do not get repaid. Then it requires an outlay.

Mr. **Frenzel**. Are you satisfied that you are competitive, or that the U.S. sellers are competitive in world markets with the amount of trade credit that is available to you?

Mr. **Tracy**. There are certain places where we are facing competition which we feel is unfair.

Mr. **Frenzel**. But you do not recommend additional credit for agricultural programs?

Mr. **Tracy**. Because of the budgetary concerns at this time, no. We would prefer to take the route of attempting to negotiate to reduce that unfair competition.

Mr. **Frenzel**. Thank you.

Chairman **Gibbons**. How does the CCC-guaranteed loan work? Do you go to the Federal Financing Bank to get the money?

Mr. **Tracy**. No, sir, the Commodity Credit Corporation has borrowing authority. The money actually comes from private U.S. banks.

A request for program authorization can come from a U.S. exporter or foreign importer or bank. After that is received and approved in the Department of Agriculture, based on the criteria of additional U.S. agriculture sales likely to be generated as a result, and also a good probability of repayment, the credit guarantee line is issued.

Then when an exporter makes a sale, he goes to his bank in the United States. That bank pays a registration fee to the Department of Agriculture, or rather to the Commodity Credit Corporation, to register that guarantee. The foreign customer opens a line of credit with his bank in favor of the U.S. bank.

The U.S. bank then pays the exporter. Thus, the exporter gets paid by the bank right away for his sales with only normal commercial time delays.

We simply guarantee the line of credit. In normal cases, of course, the letter of credit is followed through with and the U.S. bank is paid off in time.

Chairman **Gibbons**. But it is a below-market rate of loan, is that right?

Mr. **Tracy**. No; it is not. We used to have a direct credit program. We still do have authority, but no funding for it.

It was called the GSM5 program. But it has not been implemented in the last two years, or in fiscal year 1982.

It has been replaced by the guarantee program. So we do not have any direct credit programs.

Under the guarantee program, the banks, of course, have to have some reason to make those loans. They make the loans at something above their cost of money.

The guarantee does allow them to give usually a pretty close rate. They are not making lots of money on this guarantee. They loan at a commercial rate, usually based on U.S. prime or the London Interbank-offered rate.

Chairman GIBBONS. Mr. Pease.

Mr. PEASE. Thank you, Mr. Chairman.

Mr. Draper, I am a little curious. Is there a discernible budget philosophy on the part of this Administration for the Eximbank?

Your budget's been cut. Is that pursuant to your sharing a load with every other agency of government, or is that pursuant to some belief that subsidies ought to be cut out, or what, do you know?

Mr. DRAPER. Yes; I would say that our administration, the Reagan administration, has definitely supported an authorization level that is commensurate with a job that needs to be done.

I don't see any indication from any of the top level of the administration that indicates that they want in any way to do away with the Export-Import Bank.

Our discussions internally have been exclusively having to do with a cutback that was right in line with the cutbacks all the way across the board. I was called over to the White House by President Reagan, and I was in the company of half a dozen other agencies in the cabinet room. And the discussion was, we need to cut back 12 percent, and every agency has got to do their part.

There was no implication that any one of us would do more than the other, but every one of us would do our part. That is the whole approach that the administration has taken, to my knowledge, toward the Export-Import Bank.

Mr. PEASE. Well, I think that is very helpful.

Mr. DRAPER. Did you want to add to that?

Mr. LELAND. I just wanted to add, based on Mr. Draper's earlier answer, that doing what he is doing—selectively meeting competition wherever it occurs in the developed as well as developing countries—is the best method for doing the job.

There aren't unlimited funds, and to provide credits even for deals that would otherwise go through makes no sense.

So the Bank has funds in what we feel is the necessary amount to meet competition. On the other hand, and it is a big "on the other hand," we have made quite clear to our trading partners that this is our procedure.

We do get a lot of information from them —and that is part of the agreement—on the export credits they are giving. It is the Eximbank's job to try to see whether or not it needs to match those credits.

We have told our negotiating partners that if we don't make the kind of progress that we are expecting in March and May, the kind we made a few weeks ago, then we will have to go back to the drawing board because we are not going to simply withdraw and allow the competition to overwhelm us.

We are going to meet that competition, in order to secure a change in the rules. If we can't, then we may need more funds. But for the time being, with the funds available and the bank still having its own funds, we feel that there is enough to meet the competition.

Mr. **Pease**. Thank you. I appreciate those comments as well.

Mr. Draper, obviously you are borrowing high and loaning low. How does the difference between those rates translate into dollars in your budget? What kind of dollars are we talking about.

Mr. **Draper**. If you will give me a minute, I will get the specific numbers. On September 30, 1981, we had loans receivable of $15.4 billion.

That translates to an average rate on those loans receivable of 7.6 percent. That is what our income is. Our debt on September 30, 1981, was $12.2 billion, most of that with the Federal Financing Bank, almost all of it.

The weighted average on that debt is currently 10.5 percent. So you can see there is about a 3-percentage-point differential between those two numbers: 7.6 percent is the income and 10.5 percent is the outgo.

Since we are not borrowing quite as much as we are lending, because we have a $3.2 billion net worth in effect, up until this year, we were able to make money, although it became a smaller and smaller percentage of our net worth, obviously.

A hundred million dollars, and most recently, this year, only $12 million profit on $3.2 billion is not exactly, you know, the kind of rate of return I am used to in the venture capital world.

On the other hand, and to give you the full story, we have exposure of $35 billion. That includes all undisbursed balances, including $12.6 billion liabilities for guarantees and insurance that are out there.

So that it is going to get worse before it gets better, I guess is what I really want to say. If we closed down the Bank today and just kept borrowing at 15.5 percent interest, in order to meet the commitments we have made in the Bank up to this point—and you know they are often not drawn down except over a 7-year period or so, we would lose $200 million this year, $400 million next year, $600 million a year from that point on in 1984 on for about the next 8 years.

Since we only have $3 billion in net worth, we would have used that up around 1986, and been going deeply into the hole.

Even with no administrative costs, which are very small in total anyway, but even making no new commitments.

So, as you can imagine, making loans low and borrowing high means that if we stay in business, the situation is worse. But we plan to stay in business.

Mr. **Leland**. You might say we hope interest rates will come down.

Mr. **Draper**. That is what we hope, too.

Mr. **Pease**. Other members of your administration have expressed more than hope that they will be coming down. Is this a weakening of your position?

Mr. **Leland**. They have been coming down. I was going to add—but decided not to monopolize the microphone—I was going to say they have been coming down. It is our full expectation they will continue to come down.

Mr. **Pease**. Excellent. Again, Mr. Draper, if the bank loses $200 million in a given fiscal year, what does that mean in terms of your need for an authorization or an appropriation?

Does it affect either one?

Mr. **Draper**. Well, we think that the—would you repeat the question?

Mr. **Pease**. Yes. If you lose $200 million in a given year, does that require anything in terms of an authorization or appropriation from the Congress?

Mr. **Draper**. The answer to that is no, we do not need any appropriation from Congress, and we never have gotten an appropriation from Congress, incidentally, in the history of the Bank. We get from Congress every year an authorization to make new loans. And that is up to the Congress.

The administration this year is requesting three billion eight hundred some million dollars for that authorization. And I think that wouldn't be affected at all by the fact that we will lose $200 million in fiscal year 1982.

And, in fact, we could lose $400 million in 1983, as I pointed out, in order to just follow through with our former commitments, without requiring any appropriation from Congress.

And we could lose another $600 million in 1984 without requiring any appropriation from Congress. But at some point, your net worth begins to get very thin.

Theoretically, though, we have a right to borrow from the Federal Financing Bank as much as we need to follow through on the authorizations we made, which authorizations were controlled by the Congress at some former date.

Mr. **Pease**. Thank you very much.

Thank you, Mr. Chairman.

Chairman **Gibbons**. So you don't need an appropriation, but you do need authority to borrow from the Federal Financing Bank; is that right?

Mr. **Draper**. We have that authority, sir, to borrow from the Federal Financing Bank to meet the commitments that have already been made.

Chairman **Gibbons**. Is that unlimited authority to borrow from the Federal Financing Bank?

Mr. **Draper**. To the extent that the funds are needed to meet the commitments that we have.

Chairman **Gibbons**. That is better than an appropriation. I would rather have that than an appropriation any day.

If you will just give me access to the Federal Financing Bank, you can keep all the appropriations. I will take that.

Mr. **Draper**. But the problem, as you well understand, Mr. Chairman, is that, without any authorization to make new loans, of course, our growth and activity and support for the American exporter would shrivel.

Chairman **Gibbons**. I understand that, but I am afraid a lot of people don't understand the operation of the Federal Financing Bank. That worries me. That is an in-house problem.

Any other questions?

Mr. **Pease**. Mr. Chairman, I just want to clarify one thing. Where did this start-up capital for the Eximbank come from?

Mr. **Draper**. A billion dollars was loaned by the Treasury in 1945 to, in effect, prime the pump. And then the Bank earned some $3 billion by lending above borrowing costs to the point where we would have had $4 billion in net worth, but we paid $1 billion back in the form of dividends to the Treasury.

I don't know if the proper term is "loaned." The Treasury got their $1 billion back anyway and we have got $3.2 billion in net worth from a $1 billion start.

Mr. **Pease**. Thank you.

Chairman **Gibbons**. All of your capital, other than the capital that you have been able to put in reserves from your loans, has come out of the Treasury?

Mr. **Leland**. Mr. Chairman, I think, as you said, that the confusion concerns the Federal Financing Bank. The Federal Financing Bank's position as an arm of the Treasury permits entities which borrow from it to do so at a favorable rate.

That means they are in the market at one rate, and those who don't have that advantage are in the market at another rate.

The Eximbank borrows at that preferential rate. Now, one could reach a point where, even if Eximbank received that preferential FFB rate and was lending at the same 15- or 14-percent interest rate it was receiving, there still would be a subsidy because the Government was participating by providing the guarantee.

But there would be no further subsidy. Under present circumstances, on the other hand, Eximbank has an authorization to borrow from the Federal Financing Bank and they get their money at, let's say, the 15 percent Mr. Draper mentioned. But then they lend it out at 10.75 percent. Consequently, they must dip into their capital to make up that differential. Access to the Federal Financing Bank itself is an advantage anybody would like to have. And that is essentially the advantage that the Export-Import Bank was envisioned to have over any other bank.

Chairman **Gibbons**. You can keep Jamie Whitten and all of his committees and subcommittees over there. I will take the Federal Financing Bank any day.

I have a few questions for you, Secretary Leland, on which I would appreciate responses for the record.

[The questions and answers follow:]

Department of the Treasury,
Washington, D.C., January 15, 1982.

Hon. Sam Gibbons,
Chairman, Subcommittee on Trade, Committee on Ways and Means, House of Representatives, Washington, D.C.

Dear Mr. Chairman: Enclosed are answers to additional questions submitted by the Subcommittee following my testimony during the Trade Oversight Hearings in November. The questions deal with the extent of reductions in official export credit subsidies as a result of the ongoing OECD negotiations, the prospects for further progress in the spring round of talks, and the particular issue of mixed credits.

I hope these answers will prove satisfactory to the Subcommittee. If you have further questions, I would, of course, be happy to answer them.

Sincerely,

Marc E. Leland,
Assistant Secretary
International Affairs.

Enclosure.

Question. Would you tell us what the recent increase in the minimum interest rates under the OECD Arrangement means in terms of the amount of government subsidy that still remains with respect to current interest rates of the major foreign currencies, and how this compares with the lending rate of our Eximbank? In other words, how many more percentage points do the rates need to be increased to remove the current subsidy element, taking into account differences in repayment terms?

Answer. The new interest rate floor of 10.0 percent for long-term loans to poor countries will greatly reduce the degree of official export credit subsidization permitted in all currencies. The amount by which subsidies are reduced will differ somewhat from currency to currency, however. The following table portrays the degree of subsidization permissible under the old Arrangement minima, relative to government long-term borrowing rates prevailing in each currency in September, 1981, and the degree of subsidization which would have been permitted had the new 10 percent minimum rate been in effect at that time:

[In percent]

Currency	Former maximum subsidsy rate	Present maximum subsidy rate
U.S. dollar	45	29
Deutsche mark	27	6
French franc	55	41
Pound sterling	51	37
Japanese yen	14	−3

In the case of the yen, the new minimum export credit rate of 9.25 percent is above the Japanese government borrowing rate of 9.02 percent prevailing in September, 1981, thus eliminating any direct subsidy from official financing in yen.

Without a system that differentiates minimum export credit rates by currency, it would be impossible to eliminate subsidies completely, unless a minimum export credit rate was set at a level equal to the highest government borrowing rate. Currently, this would be France, which has a government borrowing rate of about 17 percent. For the U.S. dollar, a rise of four percentage points in the minimum Arrangement rates to a new level of 14 percent would almost completely eliminate U.S. Eximbank subsidies.

Question. What are the prospects and timetable for achieving additional reductions in subsidies through a further increase in the minimum and/or by government interest rates falling?

Answer. The next session of the OECD Export Credits Group is scheduled for March 1982. The U.S. Government expects that minimum export credit rates for most currencies will be revised upward during this session. The extent to which these rates are revised will depend on the perceptions of the negotiators as to what financial market rate movements will be over the next few months. I cannot predict what the combination of changes in minimum official interest rates and financial market rates will mean in terms of actual export credit subsidies.

Question. An increasingly popular financing method, particularly for the French, has been mixed credits, combining aid funds with normal export credits to create overall financing at rates even lower than the OECD Arrangement minimums, and with longer maturities. The recent negotiations resulted in agreement on increased requirements for prior notification of mixed credits to allow other countries the opportunity to match them and thereby discourage their use for commercial advantage.

How will this agreement discourage the use of mixed credits in competing with the United States, when this is a method we do not use? Does our law allow the use of mixed credits and should we use them when necessary in specific cases to compete with foreign mixed credit offers? How else do we meet this type of competition?

Answer. We have found from experience that the threat of matching predatory financing practices often is the most effective method of discouraging their use. If a country is obliged to notify its competitors beforehand that it intends to use such devices, thus giving the competitors a chance to match the offer, any commercial advantage that might otherwise have been gained is lost. The only real result for the country finally winning the sale is that the burden on its taxpayers has increased by the amount of the subsidy.

The United States does not now have specific institutional arrangements for offering mixed credits. We believe that foreign assistance, intended to promote economic development, should be carefully distinguished from export finance, intended to promote U.S. exports. Rather than matching the institutional arrangements of other countries in this area, which would tend to perpetuate and exacerbate the practice, we would prefer to negotiate limits among all donor countries.

This does not mean the United States is defenseless in this area. The Export-Import Bank has met, and could again selectively meet, foreign mixed credit offers where there is a competitive U.S. bidder who appears to have a good opportunity of winning the sale in the absence of mixed credit competition. It does this by extending the term of its financing offers, as has recently been done in Mexico and Indonesia. Using the Bank in this way allows us to protect our export interests while continuing to push for international limitations on the practice of using mixed credits.

The agreement which took effect November 16 is a modest step toward greater control of mixed credits in that it tightens the notification obligations. We expect to follow up in future negotiating sessions to gain further limitations on the practice.

Question. Are there other types of competitive financing methods which may become more popular now to circumvent the higher minimum interest rates under the Arrangement?

Answer. I cannot, of course, predict what new financing methods other countries may invent in order to try to gain competitive advantage for their exports. I would note, however, that our entire negotiating strategy is directed, not at enumeration and control of specific financial "gimmicks", but at control of the *effect* of these practices: subsidized financing of exports in whatever form. As the negotiations move forward, we anticipate that the permissible margin for predatory financing methods of whatever kind will be narrowed.

Chairman GIBBONS. Unless there are further questions, we will stand adjourned.

We will reconvene at 9:30 tomorrow.

[Whereupon, at 3:45 p.m., the subcommittee was adjourned, to reconvene at 9:30 a.m., Tuesday, November 3, 1981.]

U.S. TRADE POLICY

TUESDAY, NOVEMBER 3, 1981

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, D.C.

The subcommittee met at 9:35 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

Chairman **Gibbons**. Good morning, ladies and gentlemen. The meeting will come to order on the last scheduled day of the oversight hearings in which we have invited the administration to present their position first.

As I said on the opening day, we are going to continue on with these hearings as soon as we can schedule some days at which time we will give an opportunity for the user sector of American business to examine these programs and to make suggestions.

Today we have with us two panels, one to talk about U.S. industrial competitiveness. From the Department of Commerce we have Mr. Lionel Olmer, who is Under Secretary for International Trade; from the Office of U.S. Trade Representative, we have with us Mr. William Krist, who is Acting Assistant U.S. Trade Representative for Industrial Trade Policy and Energy, accompanied by Mr. Stephen Piper, who is the Coordinator for Aerospace Trade Policy; and from the Department of Labor, Mr. Michael Aho, Director of Foreign Economic Research.

We welcome all you gentlemen here today. We would be glad to hear from you to the extent that you want to either read your statement, put it in the record, summarize it or read part of it; it is up to you.

Mr. Olmer, we welcome you here. You may proceed as you wish.

STATEMENT OF LIONEL H. OLMER, UNDER SECRETARY FOR INTERNATIONAL TRADE, DEPARTMENT OF COMMERCE

Mr. **Olmer**. Thank you, Mr. Chairman, I am pleased to appear before the committee to discuss our competitive situation. As you point out, I am accompanied by colleagues from USTR and the Department of Labor.

Mr. Piper would like to make a short statement following mine. In addition to a prepared statement which I would like to submit for the record, I have some additional materials for submission into the record.

Chairman **Gibbons**. We will put all of it in the record, Mr. Olmer.

You may proceed in any way you wish.

Mr. OLMER. In addition to material which has been previously identified which I would like to submit, Mr. Chairman, I would like to call your attention to a letter which we are very grateful for having received on the eve of Secretary Baldrige's and my visit to Tokyo, Japan, which I would like to see appended to the record.

Chairman GIBBONS. Yes, sir, it can be included, too.

[The information follows:]

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., October 23, 1981.

HIS EXCELLENCY,
THE PRIME MINISTER OF JAPAN.

DEAR MR. PRIME MINISTER. Please accept our greetings and our sincere hopes for the success of your efforts to restore strong and balanced economic growth for Japan and for the entire world. It is in this spirit that we have written to you and have asked Secretary of Commerce Malcolm Baldrige to convey our concerns to you.

These are fragile economic times, with mounting unemployment and distressed industries around the world. It is in times such as these that nations are more inclined to turn to protectionism to try to preserve their employment and production levels. We feel a particular obligation to speak out in an attempt to resist protectionism and to allow the forces for free trade and free markets to function to everyone's benefit.

We feel compelled to point out that the rapidly growing Japanese trade imbalance, not just with the United States, but with the entire world, has become a political reality which affects the future of free trade. This imbalance poses a particularly difficult political problem because of the growing concern that the Japanese market is still not fully open to foreign products.

Minister of International Trade and Industry Tanaka made a most welcome statement on July 14, 1981, indicating that renewed attention would be devoted to increasing imports of manufactured goods into Japan. We must regrettably state that substantial actions to implement the policy stated by Minister Tanaka have not yet become evident to us. We hope to stress by this letter, Mr. Prime Minister, the importance which we, the business community, and the public at large have placed on effective effort by Japan to take positive actions to open its markets fully.

The Government of Japan has taken decisive actions which have eliminated most of the official barriers to imports of manufactured goods. Yet manufactured goods imports into Japan remain comparatively small. As a proportion of Japan's total imports, manufactured goods are of smaller significance now than they were in 1978 just after the conclusion of the Strauss-Ushiba agreement.

Most recently, in fact, there have been indications from Japan that some actions which may be taken to aid distressed industries may also serve to reduce U.S. and other countries' exports to Japan. The United States and many other countries have distressed industries as well as Japan. If Japan, with large and growing trade and current account surpluses, acts to protect distressed industries, how can other governments explain to their unemployed workers in distressed industries why they should not be protected as well?

It is necessary for us to say, Mr. Prime Minister, that it would be particularly difficult for us to explain to our constituents why the United States, which is running a huge trade deficit with Japan and is carrying a heavy international defense burden, should not respond by protecting its distressed industries.

It is for this reason that we take this opportunity to express our hope that the Government of Japan will avoid any actions which would limit American exports to Japan. It is our heartfelt hope that Japan instead will take major initiatives to improve market access for manufactured and other goods imports. Though the short-term adjustment burden of such a course may be higher, this approach would increase Japan's prosperity in the long term.

To be specific, it is our hope that the Government of Japan could take actions to reverse the "buy Japan" policies still prevalent in many parts of the Japanese business community and to take actions which would allow American companies in Japan to be treated in a manner reciprocal to Japanese companies in the United States. We are referring to standards procedures, customs practices, testing requirements, and membership in professional groups or trade associations as examples of ways in which Japanese firms in the United State receive more favorable treatment than American companies in Japan.

Secretary Baldrige is aware of our deep sense of urgency in seeking actions which would further free trade rather than protectionism. We hope that our sincere expression of concern will be of assistance to you as well as to President Reagan in helping to chart a trade course which will benefit all our peoples.

Sincerely,

Don Bonker, Chairman, Export Task Force, U.S. House of Representatives; Bill Frenzel, Vice Chairman, Export Task Force, U.S. House of Representatives; Sam Gibbons, Chairman, Subcommittee on Trade, U.S. House of Representatives; Claude Pepper, Les AuCoin, Guy Vander Jagt, James R. Jones, Tom Bevill, Steve Neal, Jonathan Bingham, Joel Pritchard, Gillis Long, Jerry M. Patterson, Robert J. Lagomarsino, John Edward Porter, Ike Skelton, Dan Glickman, Doug Bereuter, Norm Dicks, Millicent Fenwick, Sid Morrison, Tom Foley, James Nelligan, Tom Lantos, Ed Weber, Tom Downey, Robert T. Matsui, Bill Alexander, Fred Richmond, Vic Fazio, and Bob Shamansky, Members of Congress.

Mr. OLMER. Mr. Chairman, I believe we in the United States today face the most serious competitive challenge in our history. Although we remain the world's largest and most productive economy, our competitive capabilities in a growing number of areas have actually fallen behind other major industrial countries.

If present trends continue, by the end of this century, we may well lose our position as the world's premier industrial power. This has serious ramifications for not only our overall economic strength, but for our national security as well. We face growing competition today, not only from our traditional competitors, but also from some of the less-developed countries.

By the end of the 1960's, as is well known by now, Europe and Japan had achieved general economic parity with the United States. During the 1970's, many of the LDC's became important industrial powers as well.

The United States no longer has a monopoly on the best production technologies or the most sophisticated products. Other countries now match us equally in production techniques and in the sophistication of the goods which they produce.

The Japanese, in particular, are now mounting an intense challenge to the United States in the high-technology area.

In my prepared statment, I identify a number of statistical indicators of competitiveness, and by all these yardsticks, we are clearly not doing as well as we should, or as well as we could.

We are losing our share of export markets. I point out that in 1960, we had a 25-percent share of the world export market for manufactured goods, which, by 1980, had fallen to 18 percent.

We now have a serious and continuing deficit in our merchandise trade account, totaling $120 billion since 1975. A combined $60 billion deficit is projected for this year and next.

We are not saving nor are we investing sufficiently. Our productivity growth has been stagnant in recent years and is a very worrisome indicator of our declining competitiveness.

Beyond the numbers, however, there has been a gradual shift in our national attitudes away from the things that had made us previously so competitive.

Our focus has too often been on short-term results and stopgap solutions to growing problems.

These attitudes poison our competitive capabilities. The actions of other countries, however, also significantly affect our ability to compete.

Many foreign countries still maintain both formal and informal barriers to trade and investment and employ a wide range of policies which actually distort free trade and investment flows.

If we do not have fair access to foreign markets, or if we have to compete with subsidized products, then no matter how efficient or innovative we are, our industries' ability to succeed is seriously handicapped.

I have just returned from a trip to Japan, Mr. Chairman, and every time I visit that remarkable country, I am more impressed by the economic challenge we face from this one nation.

In my prepared statement, I review our competitive situation in several key industries, including the high-technology area. Japan emerges from this discussion as our No. 1 competitor, and its challenge is just beginning.

Everyone is familiar with Japanese success in selling steel, autos, consumer electronics, optical equipment and office equipment in our markets.

What may not be fully appreciated, however, is that during the next decade, the Japanese are going to challenge us even more directly in the high-technology area. Japan is now in the process of establishing world-scale industries in computers, telecommunications, industrial robotics, and biotechnics.

There is a national consensus in Japan that its economic future depends upon a rapid evolution into a knowledge-intensive and technology-intensive economy.

I think, in fact, the Japanese themselves feel almost awed by the potential which they realize is at their disposal. This competitive challenge, however, must not be met by tearing down the trading system that the free world has so painfully built up since World War II.

This country has been the prime mover in establishing the present system of international trade and investment, and we should be very proud of our record.

The world has benefited from our efforts. We must meet the challenge by becoming strong within, and by insisting on fair competition without.

The decline in our competitiveness can be reversed through a partnership of Government and the private sector. Our competitiveness problems will not be solved overnight.

But now is a time of opportunity. Indeed, I believe the most important steps that the Government can take regarding our international competitiveness have already been taken. The administration's economic recovery program is aimed at restoring U.S. competitive leadership.

The recently enacted accelerated depreciation allowances, investment tax credits and R. & D. provisions, for which the private sector owes a debt of gratitude to this committee, will be powerful stimuli for invention, innovation, and new investment, especially in the critical high-technology area.

As a government, though, we still have much more to do. We have a full agenda of policy problems including such issues as international investment, export financing, trade in services, and domestic overregulation.

The MTN codes must be effectively implemented. We need passage of the export trading company legislation and amendment to the Foreign Corrupt Practices Act.

We must reduce the burden of unnecessary regulations on exporters and we must continue to improve the effectiveness of Government export marketing and assistance services.

I anticipate that the Cabinet Council on Commerce and Trade will shortly begin a comprehensive evaluation of the outlook for our high-technology industries because of the evidence that these industries may be operating at an unfair competitive advantage globally.

This study in which Commerce will take an active role will examine the international economic environment that we believe will prevail in the 1980's.

The private sector, however, must also hold up its side of the partnership. Business and labor must take advantage of these new opportunities and adopt long-term perspectives.

I believe that we are going to turn the corner in the 1980's, and that we will increase our economic strength. This administration is committed to a stable economic environment where competitiveness can thrive. We are dedicated to an open international, free economic system, where everyone abides by the same set of rules.

I think it fair to say that the United States represents a dynamic people, and our trade and investments should grow as the Government reduces its involvement in private business activities and instead opens the doors to free and fair competition in the marketplace of the world.

Mr. Chairman, thank you very much, and we are ready for your questions to be preceded by a short statement by Mr. Stephen Piper, who is the industry coordinator for aerospace products in the Office of the U.S. Trade Representative.

[The prepared statement follows:]

STATEMENT OF LIONEL H. OLMER, UNDER SECRETARY FOR INTERNATIONAL TRADE, DEPARTMENT OF COMMERCE

Mr. Chairman, you have asked me to speak on the subject of the competitiveness of U.S. industry, a matter which this Administration believes is one of the most important issues facing the country today.

I have just returned from Japan where I discussed trade and competitiveness with Japanese government leaders and business executives. My belief is reinforced that U.S. industry faces the most serious competitive challenge in its history.

"Competitiveness" determines our standard of living and even our ability to protect our national security. It dictates the number and quality of jobs our economy is able to offer American citizens. Indeed, the competitive spirit is an essential part of American history and has in large part, made us the world's greatest economy.

The United States is the world's largest and most productive economy. The variety of goods and services we produce is unrivaled by any other nation. We are the world's largest market, as well as the world's leading exporter and importer.

American industry and agriculture are the envy of the world. The American farmer is by far the most efficient and largest producer of food in the world. Our agricultural exports feed millions of people abroad and are a bright spot in our trade picture. The American industrial worker is also the most productive worker in the world and our production of goods exceeds that of every other economy. I would not exchange our economic position with that of any other country.

Yet we are being challenged as never before: both Europe and Japan possess modern industrial bases. They are now our competitive equals in most areas. In a growing number of commodities, especially in certain crucial high-technology products, we are in danger of falling behind other industrial countries.

In addition, many of the developing nations have emphasized selected manufacturing areas, and within those areas can compete with U.S. producers in terms of quality and price. We have encouraged and supported much of this growth as well we should. All countries benefit when people are able to purchase the best goods and services at the lowest price—regardless of where they are produced.

Not only is the challenge growing, but trade is becoming increasingly important to our economic prosperity. Exports means jobs, and good, high-paying jobs. In 1980, some 5.1 million jobs were supported by merchandise exports, and half of these jobs were in our manufacturing industries. We have calculated that in 1980 every billion dollars of exports meant 24,000 jobs for American workers. Wages paid in producing manufactured goods for exports are nearly 10 percent higher than general wages in the industrial sector. These jobs and wages help to pay for the imports which make up over 20 percent of the goods we consume each year. These imports are important to the strength of our industrial base. We must be competitive in the export area in order to pay for the goods we want to import and in order to increase the benefits of trade such as high-paying jobs. If we lose our competitive edge, we lose these benefits of trade.

I believe we can meet the competitive challenges of the 1980's and increase the benefits to our economy which flow from international trade. The first step in meeting this challenge has been taken—the President's Economic Recovery Program is aimed at improving the fundamental economic strength of our country. The Program provides the foundation for American business and labor to build upon.

In my testimony today, I will discuss our competitive situation, pointing to areas where our competitive abilities need strengthening. I will conclude by setting out what I believe has to be done in order to take full advantage of the opportunities that increased competition will present during the decade.

THE U.S. COMPETITIVE SITUATION

In discussing competitiveness, it is very easy to become confused by statistics and the mixture of short-term and long-run factors which affect our competitive capabilities. So let me begin by sorting out some things.

Balance of Trade and Market Share

Two standard indicators of a country's competitive performance are the trade balance and shares of world export markets. A long-run view of these two indicators for the United States suggests a serious problem.

Before 1971, the United States had an unbroken string of trade surpluses going back to 1893. Since 1971, we have had merchandise trade deficits in every year but two. Our merchandise trade deficits have totaled $120 billion (f.a.s. basis) since 1975, and Commerce staff projections indicate that the deficit this year and next could add more than $60 billion to that total.

But our overall trade deficit can "disguise" some of our competitive strengths. This year we will probably have roughly a $30 billion surplus in our agricultural trade and a $30 billion surplus in our trade in high-technology manufactures. These two commodity surpluses, however, will not cover our deficit in low-technology manufactures or the bill for our petroleum imports. In order to reduce our overall trade deficit, we must expand our exports.

In 1960, the United States was the world's largest exporter of manufactures and we held 25 percent of the world export market for manufactured goods. By the middle of the 1970's, our share had fallen under 20 percent, and Germany had displaced us as the world's leading exporter of manufactures. By 1980, our share had fallen to 18 percent and we are in danger of being surpassed in manufactures trade by Japan during this decade.

A note of caution—it is easy to get the wrong message on competitiveness from recent statistics. A year ago, many observers were claiming that we had "turned the corner" in our trade performance and competitiveness. The U.S. dollar had depreciated by over 12 percent between 1977 and 1978 and this improved our short-term trade competitiveness. This showed up in 1979 and 1980, after the usual 1- to 2-year lag, in the form of higher exports, reduced growth in imports, a declining trade deficit, a return to a trade surplus in manufactures, and some growth in our trade share.

In any event, the "turnaround" was brief and our trade performance is again deteriorating. The 20-percent appreciation of the dollar between June 1980 and August 1981 is going to make an improvement in our trade performance difficult over the next two years. Our exports are now more expensive for foreigners to buy, while imports are cheaper to American consumers.

Short-term movements in the trade balance and market shares can give a very distorted picture of our competitive situation. The picture can be too alarmist or too optimistic. I do not mean to imply that these two statistics tell the whole story. For example, a declining trade share of a rapidly growing world market for a given product is preferable to a rising share of a stagnant or declining market in terms of benefits to the U.S. economy. We should focus on longer term trends in order to gain a broader perspective and to develop insights about our competitiveness difficulties.

FACTORS BEHIND COMPETITIVENESS

Trends in market shares and trade balances have been going against us. Why? To answer this question we need to look behind trade flows and focus on the factors which determine competitiveness.

Many factors affect competitiveness, and these factors are all interrelated. Price is usually considered the most important element in competitiveness, but sometimes it is accepted as such because it is easiest to measure. A sale involves other elements—quality, service after the sale, and financing terms to name a few.

Behind price, we see other factors such as hourly wages and productivity. Behind productivity we find investment and research and development. Linking these together are the perspectives and attitudes of management and workers toward quality and competition. Finally, Government, both U.S. and foreign, provides a general framework for the economy which can contain elements which hinder or encourage trade.

Prices and Productivity

Over the past decade, our prices have risen more rapidly than those of most major nations. Since 1975, U.S. manufactured goods prices rose 9 percent a year, while Germany's and Japan's rose only 4-5 percent. The main reason for this lies in unit labor costs. Since 1973, U.S. unit labor costs have risen almost 8 percent annually, compared to 5 percent in Germany and less than 4 percent in Japan.

Why have our unit labor costs grown so fast? The answer is that U.S. wages have grown faster than productivity. Wages make up two-thirds of our production costs and dominate long-term inflation trends. During the 1970's, labor compensation in U.S. manufacturing industries rose an average of 8.8 percent per year. This was far in excess of gains in productivity which averaged only 2.4 percent per year.

In the United States, productivity growth offset only about one-fourth of wage growth. Productivity has been in better balance with wage increases in Germany and Japan over the past decade, even though their wages have grown faster than ours. In Germany during the 1970's, manufacturing wages rose an average 10.9 percent per year compared to a growth in productivity of 5.2 percent a year. In Japan, wages grew by 14.5 percent a year while productivity increased by 7.4 percent a year. In Germany and Japan, productivity offset roughly half of the increase in wages.

In the most recent three year period, U.S. productivity growth has been almost stagnant. In 1980, our manufacturing productivity was only 1.4 percent higher than in 1977, while during the same time period Japanese productivity had risen 23 percent and German productivity 10 percent. It is clear from these figures that the American worker's standard of living is endangered unless a better balance can be achieved between productivity growth and wage increases.

Investment and Research and Development

One of the most important factors in our productivity problem has been inadequate investment. During the 1970's, we devoted about 11 percent of our GNP to new plant and equipment (i.e., additions to the capital stock), while Germany spent 13 percent and Japan spent 17 percent. Most of our investment, moreover, went to replacing aging plant and equipment, installing pollution control and safety equipment, and for defense purposes. Our competitors, on the other hand, were able to increase their capabilities for producing traded goods, in part because these economies had to undertake relatively less defense related investment.

Investment in new plants and equipment enhances worker productivity. Up to 1974, capital per worker in the United States grew about 3 percent per year, roughly the same as our productivity growth. Since 1974, though, capital per worker has grown less than one percent per year. Moreover, U.S. industrial equipment is on average over 20 years old, and in some mature industries, much of the equipment is over 50 years old. For some foreign producers, the average age of industrial equipment is more like 10-14 years.

Research and Development (R&D) to foster innovation has been another major area where we have lagged behind. In 1962, our R&D spending accounted for about 75 percent of the total R&D conducted by the five major industrial countries. By the beginning of this decade, our share had slipped to only about 50 percent. U.S. origin patents have been falling as a proportion of patents issued in this country. In 1968, U.S. citizens received 77 percent of domestic patents, but this share fell to 62 percent by 1978.

As a proportion of GNP, R&D in the United States fell from 3 percent in the mid-sixties to less than 2.3 percent at present. In Germany the proportion rose from 1.6 percent to 2.4 percent. In Japan, the ratio went from 1.5 percent to 2.0 percent, and projections indicate that Japan will soon devote 3.0 percent of its GNP to research and development. The disparity is actually greater than it appears, for roughly one-third of U.S. R&D spending is for national defense, while almost all of German's and Japan's is directed toward commercial application.

High Technology Products

We can perhaps best see the impact of these R&D trends in our high technology products. The United States is the world leader in high technology products. These products have been a mainstay of our trade position and an area where we are preeminent. Today, we have a $30 billion surplus in trade in high technology goods. Maintaining that surplus is vital to offset deficits in lower technology trade, oil, and other commodities necessary to operate our industrial base.

In the early 1960's, we had about a 30-percent share of world trade in high technology goods, but today our share is down to about 20 percent. More specifically, we used to account for 65 percent of the world market for commercial aircraft, but our share in the late 1970's was down to 54 percent. In telecommunications our share has slipped from over 30 percent to under 19 percent. In scientific instruments we have been cut from 30 percent of the world market to under 15 percent. While small declines in market shares for some of these product areas might be expected over time, clearly our competitors have been outperforming us.

The competition in the high technology area will be even more intense in the future. As developing countries expand their manufacturing capabilities into steel, textiles, and other low and moderate technology products, the industrial nations and some advanced developing countries are moving to develop high technology industries where their production resources and employment will not be in competition with the LDCs. But that means these nations will be more directly in competition with the United States.

If we do not keep pace with the technological advances of our competitors, we will lose our technological leadership in the world. More and more of the inventions and improvements that go into technology are occurring abroad. This has ramifications for our foreign policy and for our national security.

Technological leadership, and economic leadership generally, can translate into political, diplomatic, and military leadership. Other nations have come to the United States to get access to the best and latest technology, which we have shared openly to encourage closer ties with our political allies, and in the belief that knowledge sharing is essential to global scientific and technological advancement.

As our technological lead diminishes, our political influence is reduced as other nations look elsewhere for technology. Also, given the importance in a free market system of earning profits from which to invest in new advances to make one's products more competitive, losing technological leadership directly reduces our economic strength.

Technological leadership is also a key to our national security. Our ability to produce modern military systems can be compromised if we are dependent on foreign sources for the most modern technology. I would not want to contemplate the implications of dependence on foreign sources for our defense technology.

National Attitudes

Since World War II, there has been a gradual shift in our national attitudes away from the things that made us so competitive in the world marketplace. We became a bit lax. Managers and workers became comfortable with the status quo and focused on short-term results and stop-gap solutions to fundamental problems. In contrast, many of our competitors have taken longer-term perspectives and have risked the status quo for larger economic benefits.

For example, U.S. industry has paid insufficient attention to quality control, to inventory management, and other sound business principles, which have contributed to our competitive problems. Pride in workmanship, management-labor cooperation, and a feeling of participation and commitment on the part of all a firm's employees must be rekindled if we are to solve the problems of the U.S. economy.

Actions of Other Countries

But not all of the factors affecting our competitiveness, however, are domestic in origin. Many foreign countries still maintain formal and informal barriers to trade, and still engage in policies that distort trade and investment. If other countries subsidize their industries or hinder our access to their markets, then it doesn't matter how efficient or innovative we are—we aren't allowed to compete.

Subsidized foreign official export credits are a primary example. The competitiveness of capital goods in particular is critically dependent on financing terms. U.S. products can be better on all counts and still lose out because of subsidized foreign financing. I am pleased with the recent agreements which reduce the subsidy content of export financing. I can tell you, having just returned from Korea where we may lose major export orders approaching a billion dollars, that this reduction is just the first step. More must be done and we must pursue the goal of further reducing and, if possible, eliminating the subsidy content of this financing.

Tariffs and quotas are other obvious factors that can negate our competitiveness. Less obvious are the types of nontariff barriers, such as government procurement, licensing procedures, and technical requirements. We intend to go forward with the tariff reductions negotiated in the MTN and to see that the MTN codes are effectively implemented.

We are also encountering trade problems with such things as performance and coproduction requirements. Government assistance in these new forms are being used in many countries to shelter some industries from import competition and to develop other industries into export contenders. Artificial requirements such as local content and export targets, as well as the use of regional development plans and manpower training programs by some European nations can distort trade and investment, as much as traditional tariffs and quotas. We must find ways to deal with these issues.

These issues have previously been discussed before the Subcommittee, and I mention them only to round out the factors that affect the ability of U.S. exporters to compete in foreign markets.

COMPETITIVENESS IN FOUR INDUSTRIES

So far I have talked about competitiveness in terms of the overall picture by pointing to national trends in trade, market shares, wages, and productivity. I want to look now at four important U.S. industries which will illustrate the breadth of the competitive challenge the U.S. economy is facing.

Automobiles.—The U.S. auto industry is a key example of a major U.S. industry with serious competitiveness problems. At present, imports account for about one-in-four of the new cars sold in the United States, up from virtually nothing during the 1950's. These high levels of imports have aggravated the recession in the domestic industry. Over 200,000 autoworkers are without jobs, and job losses in related industries could push total unemployment close to 600,000.

Imported cars began to take an appreciable part of the U.S. market in the 1960's, and the principal suppliers were European. In the 1970's, the level of imports jumped and now the Japanese are the main supplier of imported cars.

The U.S. auto industry shares some of the responsibility for its present competitive difficulties. From the beginning of serious import inroads in the 1960's, the domestic industry wrote off the less profitable lower end of the market for low-priced and fuel-efficient cars. It was more concerned with the higher profits that could be made from larger cars, and clearly the public wanted large cars at that time.

When higher energy prices hit during the 1970's, the domestic industry was not prepared to meet the challenge. It had limited capacity in the type of cars being demanded by the public. At the same time, it was not able to compete in terms of price and quality with the imported products.

For example, the U.S. auto industry requires about 120 hours to build a car while the Japanese industry needs about 95 hours. As a result, the Japanese have a large cost advantage over U.S. firms which has been estimated as being from $800 to as high as $1,500 less than Detroit requires to build an equivalent car.

Japan represents the challenge but it has also given the U.S. auto industry an opportunity to become more competitive. At present, Japan has voluntarily limited auto exports to the American market. The U.S. auto industry must use this breathing space to complete its $80 billion modernization program. But even after this program is completed, the Japanese and others will continue, and more than likely increase, their challenge. The U.S. auto industry must use this opportunity to prepare for this competition. Detroit can't merely plan to meet the competition posed by today's Japanese cars. Right now, the Japanese are planning major improvements in their automobiles and assembly lines.

Steel.—The steel industry is another traditional "American industry" which has become less competitive. Today, foreign suppliers account for nearly 20 percent of the steel consumed in this country, up from only 5 percent in 1970. The U.S. industry accounts for 14 percent of world output, compared to nearly 40 percent in the mid-1950's. The United States had nine of the top ten steel companies in the world in 1959, but only two in 1979. Japan surpassed the United States as the Free World's leading steel producer for the first time in 1980.

The U.S. steel industry was the major producer in the world in the decades following World War II. Some loss of foreign markets was to be expected as Europe and Japan rebuilt their national industries using steelmaking technology available at that time. In the United States, however, wage increases exceeded productivity gains, and efforts to modernize production lagged further and further behind other countries such as Japan.

U.S. government policy, in particular environmental regulations, price controls, and relatively long depreciation guidelines, also contributed to the industry's inability to keep pace with competitors abroad. Moreover, as many steel producers will admit, a number of management misjudgments also led to the maintenance for too long of uncompetitive steelmaking equipment. As a result, only 25 percent of U.S. steel capacity currently utilizes continuous casting, compared to over 60 percent in the Japanese steel industry. This process is "state-of-the-art" and the most efficient technique used in steel making.

Since 1974, the world steel industry has been characterized by persistent excess production capacity, particularly in Europe where government assistance has been an important factor in maintaining steel industry operations in the face of fundamentally changed competitive conditions. This overcapacity resulted in aggressive exporting and in some cases unfair trade practices which supported high U.S. imports of steel.

The domestic steel industry has outlined a substantially accelerated modernization program. Over 6 million tons of old and inefficient capacity have been closed and some new capacity is being built. Impressive productivity gains have recently been registered through improved utilization of existing equipment in some plants, and more than a dozen continuous casters are being installed. Moreover, the Administration has already revised many of the government policies handicapping this industry. However, foreign producers will continue to mount a significant challenge in the U.S. market. Like autos, the U.S. steel industry has no choice but to meet this challenge head-on.

Computers.—The U.S. computer industry is probably the best example of an industry where we lead the world. By all objective criteria it is strongly competitive. The industry is aggressive, innovative, and is cost and quality conscious. Nevertheless, there are competitive challenges and opportunities here as well.

Other nations are determined to build their own computer industries. As these foreign industries mature, the U.S. stands to lose its preeminence in the world marketplace. U.S. firms now account for about 55 percent of world computer production, down from a near monopoly position in the 1960's.

Competitively, U.S. computer firms have done well against their European rivals. Despite major efforts by companies heavily subsidized by their governments, in nations like England and France, U.S. suppliers still dominate the European market. American companies have faced the challenge by becoming more competitive.

Japan is in the process of developing a world scale computer industry. This effort has been dominated by the Japanese government's policies and research programs. Special tax incentives, direct financial assistance, and joint government-industry efforts are all aimed at moving the Japanese computer industry to the technological forefront in every major area. Already, they have made enormous progress. They lead in the production of certain large-scale semiconductors, particularly memory circuits. They have also reached the forefront of the industry in terms of the speed and capacity of their mainframe computers. Now they are concentrating their efforts on improving their software capabilities and developing the computer of the future, a fifth-generation supercomputer. These efforts are facilitated by the fact that the U.S. computer industry faces many nontariff barriers in exporting to Japan.

Telecommunications.—The telecommunications industry has been transformed in the past decade. Once, telecommunications meant electromechanical transmission and switching equipment for telephone systems. Now it means high-speed, digital data transmission utilizing satellites and computer controlled, time-sharing networks. Since many of these telecommunications advances were developed and first introduced in the United States, you would expect U.S. firms to be in a strong position to be major suppliers to the world market.

These are the facts: our share of the world trade in telecommunications equipment fell from over 30 percent in the early 1960's, to less than 20 percent today. In the mid-1960's, domestic firms accounted for 80 percent of U.S. patents granted in the telecommunications area; Japanese firms accounted for only 3 percent. By the late 1970's, the share of patents granted to U.S. firms was down to 60 percent; the share of Japanese firms was up to 15 percent.

We have major problems in the telecommunications area in getting fair access to foreign markets. The U.S. market, in line with our belief in free trade, is relatively wide open to foreign suppliers.

There are few barriers to foreign firms in selling telecommunications gear to U.S. business firms and even to U.S. telecommunication networks. We do not have equal access to foreign markets. The recent agreement with NTT in Japan has begun to open up the Japanese market, but the markets of Europe are still largely closed to us.

In telecommunications, as in the other industries I have discussed, our major competitors are the Japanese. U.S. firms have held their own against stiff European competition, but are losing ground rapidly to the Japanese. The government of Japan has targeted telecommunications as another industry for world scale competitiveness. And what has happened before in other American industries is happening again: the Japanese are gaining market share, and American firms are losing profits necessary to stimulate new advances.

THE JAPANESE CHALLENGE

It is no coincidence that Japan has emerged as our major competitor. I want to concentrate on the competitive challenge from this one country. I have just returned from Japan, and everytime I go there, I am more impressed with their growing competitive strength.

Japan's accomplishments are impressive. Japan has developed production processes and labor-management techniques that have resulted in high cost efficiency and quality control. These have been coupled with extremely effective marketing mechanisms in the Japanese trading companies. Part of the reason for this success lies in the "isolation" of the Japanese economy. For years Japanese firms had a protected domestic market that allowed them to flourish with little competition from foreign companies. Japan's auto industry, for example, grew up behind a tariff wall that up until the late 1960's was 35 percent.

In a real sense, Japan's past successes are just a taste of the challenge that lies ahead. Until recently, Japan did not directly compete with the United States in third country markets. Japan exported autos, consumer electronics, and steel while the United States exported capital goods and high technology goods.

Now, however, Japan has targeted high technology goods and capital goods as the direction of the future. MITI's "Vision of the Future", which has previously served as an accurate indicator of the direction for Japan's industrial policies, placed the emphasis for the 1980's on the rapid development of high technology industries. These include not only computers, semiconductors, and robotics—all of which the Japanese are well into already—but also aircraft and biotechnology.

These are areas where the Japanese government is putting financial assistance and technical encouragement. But it goes far beyond that. There has been a national consensus in Japan that their economic future depends upon a rapid evolution into a knowledge-intensive and technology-intensive economy. Japan can see that in nations like Korea, Taiwan, Brazil, Mexico, and many other LDC's will increasingly move into steel, shipbuilding, autos, and other industries where Japan currently acquires most of its export earnings. Japan is determined to move into new areas where it will not be so easy for other nations to compete with it.

I believe that the real challange from Japan is just beginning.

Meeting the challenge from Japan and other nations does not mean we must try to make these other countries less competitive or innovative. It does not mean that we should protect ourselves from competition and erect import barriers which sustain inefficiency and obsolescence. What it does mean is that we must improve our own competitive strength and meet their challenge head-on in world markets. And it must be fair competition, carried out under a set of rules that all countries must abide by.

WHAT WE MUST DO

The first, and I believe the most important, steps that the government can take to restore our international competitiveness have already been taken. The whole thrust of the Administration's Economic Recovery Program is aimed at increasing U.S. competitiveness, and in providing the essential tools to resore our economic strength. While all the elements of the Program will help our competitiveness, perhaps the most important are the depreciation schedules and changes affecting R&D.

Accelerated depreciation allowances coupled with retention of the investment tax credit provide a powerful stimulus for the expansion of investment and an increase in the proportion of our GNP that is invested. They also help make up for the advantages that foreign companies have had for some time. Japanese firms, for example, have been able to enjoy an extraordinary first year writeoff that, coupled with normal depreciation, allows them to recover about 45 percent of new equipment cost in the first year. With the new U.S. provisions, American companies can now recover nearly 60 percent in the first two years.

For equipment used for R&D purposes, the new U.S. law allows 3 year depreciation of equipment, and more than 80 percent of costs can be recovered in two years. In addition, firms can receive a 25 percent credit for increases in R&D expenses over the amounts spent during a base period. These provisions are very strong incentives, and should result in sharp R&D increases. A roughly similar Japanese provision, for example, has played a large role in the development of Japanese R&D.

The other elements of the Economic Recovery Program are also very important. Controlling and reducing government deficits together with a stable growth in the money supply will give us the low inflation and price stability so critical to our competitiveness and the development of long-term export relationships with foreign buyers.

As a government, though, we have more to do. We face major policy questions relating to international investment, export financing, trade in services, and export controls. There must be effective implementation of the MTN codes, especially to prevent subsidized competitors from taking advantage of our open markets. We must have passage of the Export Trading Company legislation. We must remove the unnecessary burdens that we place on our exporters such as ambiguities contained in the Foreign Corrupt Practices Act. We must continue to lessen the regulatory burden. We must continue to improve the delivery of export marketing and assistance services.

We must find the way to deal with industrial subsidies and unfair business practices in other countries. The MTN export subsidy code is a beginning, but we are going to have to use essentially untested international agreements to come to grips with the politically-charged issue of domestic subsidization.

There are also foreign performance requirements, coproduction demands, and other devices that require the transfer of U.S. technology or that impose unreasonable demands on U.S. companies. As technology becomes increasingly the key element to our "comparative advantage" the U.S. government must deal with these trade distortions.

We face serious problems in getting reciprocal access to many foreign markets. There is no reason why we should not be as free to sell and invest in the markets of other industrial countries as they are free to sell and invest here. Many of the LDC's now have strong industrial economies and can no longer claim all of the privileges of developing nations in terms of trade and investment concessions.

I am also very concerned about the challenge we face in the high technology area. Japan and many other nations are force feeding their high technology industries to develop export leaders. These programs can distort international trade and investment and place our industries at a disadvantage. We have problems in selling to these other countries, and we must compete against them and what are, in effect, their subsidized exports in third markets. We are not afraid of competition, but that competition must be fair and under agreed sets of rules.

We anticipate the Cabinet Council on Commerce and Trade will shortly begin a comprehensive evaluation of the outlook for our high technology industries because of the increasing evidence that these industries may be operating at an unfair competitive disadvantage globally. This study, in which Commerce will take an active role, will examine the international economic environment that will prevail in the 1980's.

This review will catalog the impediments and distortions caused by foreign government practices. This information will serve as the foundation for effective U.S.

strategy in our negotiations and consultations with other nations on high technology problems.

The bulk of the task, though, is now up to business and labor. Government can provide the tools and correct some of the mistakes of the past. Government can, through a President's leadership, affect the mood and optimism of a country. And government can unfetter the weights that have burdened the spirit of American ingenuity and the Yankee trader. These are the things we are doing.

But these things will not be enough to meet the challenge. It is now the turn of business and labor to respond. Business leaders must aggressively take advantage of the provisions of the new tax laws on research and development and on investment. Managers must turn away from their preoccupation with short-run results and take a long-term perspective. Risk, innovation, and long-term payoffs must once again become our bywords. Labor must become more flexible and more concerned with product quality and the long-term strength of our economy.

In short, a change in national attitudes is required if the United States is to retain its position as the world's premiere industrial power. We must work "smarter" and save more. We must be willing to take risks. Only in this way can we restore our competitive edge, and "Made in America" will again be the unquestioned world standard for quality.

UPDATE OF U.S. FOREIGN TRADE DEVELOPMENTS—JANUARY-SEPTEMBER 1981

GENERAL TRENDS

In the first nine months of this year, the U.S. merchandise trade deficit widened slightly compared to the deficit recorded in 1980. Expressed at an annual rate, the deficit in January-September 1981 was $26.2 billion compared to $24.2 billion last year, a negative shift of $2 billion.

So far in 1981 there has been relatively little deterioration in the U.S. trade position despite sluggish foreign economic activity, a sharply appreciated dollar, and faster growth in nonpetroleum imports. Nevertheless, the size of the trade deficit remains a matter of serious concern. This year, it is expected to widen for the first time since 1978 and will mark the fifth consecutive year that the deficit has exceeded $20 billion.

Growth rates for both exports and imports this year are comparatively low, reflecting the significant downturn in U.S. and foreign economic activity since early in 1980 and, on the import side, the reduction in U.S. demand for imported petroleum. U.S. exports were running at an annual rate of $235.4 billion in January-September, 8 percent above the comparable total in 1980. Imports totaled $261.6 billion, 7 percent higher than in the first three quarters of 1980. These low rates of growth contrasted sharply with the 18–27 percent annual increases in exports and 16–20 percent increases in imports recorded in the preceding three years.

The deterioration in the U.S. trade balance this year has been masked to some extent by a substantial reduction in petroleum imports since the beginning of 1981. The decline in these purchases, which account for nearly one-third of our total imports, have partly offset a substantial rise in imports of manufactured goods and other nonpetroleum products. Moreover, although exports rose rapidly in the early months of 1981, the trend since March has been generally downward for both manufactured goods and agricultural products. Thus, the deterioration in the manufactures trade balance this year has been greater than the deterioration in the overall trade balance.

EXPORT HIGHLIGHTS

Manufactured goods exports increased 9.5 percent in value in January-September compared to the same period last year. Particularly strong growth was noted in aircraft exports (up 24 percent), motor vehicles (up 19 percent), and machinery (up 15 percent). On the other hand, exports in the industrial materials category, such as chemicals, steel, nonferrous metals, and textiles, were notably weaker this year than in 1980. This development reflects the relatively greater sensitivity to price changes (in the form of a higher valued dollar) and reduced economic activity abroad. Despite the interruption of shipments during the coal strike, coal exports have risen strongly this year, by 22 percent to nearly $4 billion in the first nine months.

Agricultural exports were running at an annual rate of $43.5 billion in the first nine months, 6 percent above the level in the comparable period of 1980. These exports were exceptionally strong in the first quarter of this year when shipments to Latin America and Japan were particularly heavy. In the following two quarters, farm product exports dropped to a substantially lower level, but are expected to rebound in the final three months as shipments to the U.S.S.R. pick up momentum under the new grain sales agreement with that country.

IMPORT HIGHLIGHTS

Imports of manufactured goods were virtually level in value during 1980, but have risen strongly in 1981. Through September these imports were 13 percent above the comparable period last year. Large increases were recorded in imports of aircraft, various machinery items, and consumer goods such as television sets and clothing. Although automotive imports from Canada, consisting of vehicles and parts from U.S. subsidiaries, rose sharply this year, the value of foreign car imports showed no change from the comparable 1980 level. Imports of Japanese care were up 16 percent in value, but in terms of units, these imports were down 3 percent.

Among imports of industrial supplies, the most notable development was a sharp surge in steel imports, which jumped more than 40 percent in value. Although some of this expansion represented higher average prices, there was a substantial increase in the volume of imports as well, particularly after the first quarter.

Reflecting the impact of declining U.S. consumption and greater conservation measures, U.S. imports of petroleum have fallen substantially for the second consecutive year. Through September, oil imports were 14 percent lower than a year ago in quantity terms and in value terms were essentially unchanged at $59.2 billion ($79.0 billion annual rate). Although the average oil import price per barrel increased in the January-September period, the price has decreased since peaking in April at $36.51 per barrel to $33.26 per barrel in September.

REGIONAL TRADE DEVELOPMENTS

A favorable development in terms of its impact on the total deficit is the marked improvement so far this year in the U.S. trade deficit with OPEC. Last year our deficits with OPEC was $37.6 billion. The deficit in the first three quarters of the year was running at an annual rate of $29.8 billion. Of course, the reduced prices and volume of crude petroleum imports have been the key factors in this improvement.

In contrast to the reduction in the U.S. deficit with OPEC, our bilateral trade deficit with Japan will widen this year. Through September of 1981, our deficit with Japan was $15.3 billion at an annual rate, more than $5 billion larger than last year's deficit.

Exports to Japan climbed only marginally this year as reduced exports of crude materials such as lumber and steel scrap offset large increases in agricultural exports, and large manufactures exports as well. Imports from Japan, on the other hand, have continued to rise strongly in 1981.

At the same time that our deficit with Japan has been growing this year, our traditionally large surplus with Western Europe has been shrinking. During the first nine months of this year, the trade surplus with Western Europe was running at an annual rate of $14.6 billion, a sizable reduction from the 1980 balance of $20.9 billion. The decline in our surplus with Western Europe has become evident throughout the past five quarters as the U.S./Western Europe surplus has steadily fallen from $6.1 billion in the second quarter of 1980 to $3.2 billion in the third quarter of this year. As with Japan, relatively slower export growth has played a greater role in the deterioration of the balance. In fact, our exports to Western Europe actually declined in value by 5 percent during January-September of this year compared with the comparable 1980 period. Slower European economic growth this year coupled with exchange rate-induced price increases of U.S. exports contributed to the poor U.S. export growth to Western Europe.

Stronger U.S. import growth, however, is also contributing to the smaller U.S./Western Europe surplus as well. After showing virtually no growth from quarter to quarter last year, U.S. imports from Western Europe have exhibited considerable expansion in the second and third quarters of this year.

U.S. MERCHANDISE TRADE SUMMARY TABLE-SEPTEMBER 1981

EXPORTS: Millions of Dollars, f.a.s., Seasonally Adjusted Data
IMPORTS: Millions of Dollars, f.a.s., Seasonally Adjusted Data

	SEP 81	AUG 81	SEP 80*
TOTAL EXPORTS	$19,654.8	$19,050.4	$18,828.4
% Change from Prior Month	3.2%	-1.1%	4.4%
MANUFACTURES EXPORTS	$13,029.5	$13,050.5	$12,483.4
% Change from Prior Month	-0.2%	0.0%	4.4%
AGRICULTURAL EXPORTS	$ 3,644.1	$ 3,246.5	$ 3,580.0
% Change from Prior Month	12.2%	3.4%	1.8%
TOTAL IMPORTS	$21,228.6	$23,528.3	$19,940.5
% Change from Prior Month	-9.8%	18.8%	6.5%
MANUFACTURES IMPORTS	$11,931.8	$13,635.8	$10,524.1
% Change from Prior Month	-12.5%	20.7%	13.4%
PETROLEUM IMPORTS	$ 6,245.8	$ 6,521.8	$ 5,971.2
% Change from Prior Month	-4.2%	22.0%	4.6%
TOTAL TRADE BALANCE	-$ 1,573.8	-$ 4,477.9	-$ 1,112.1
$ Change from Prior Month	$ 2,904.1	-$ 3,935.5	-$ 461.7
MANUFACTURES TRADE BALANCE	$ 1,097.7	-$ 585.3	$ 1,959.3
$ Change from Prior Month	$ 1,683.0	-$ 2,334.9	-$ 861.6

* Changes in this column are year-over-year, SEP 80 to SEP 81.

	Year to Date 1981	Year to Date 1980
TOTAL EXPORTS	$176,550.1	$163,504.7
% Change from Prior Year	8.0%	- - -
MANUFACTURES EXPORTS	$117,047.0	$106,858.2
% Change from Prior Year	9.5%	- - -
AGRICULTURAL EXPORTS	$ 32,633.2	$ 30,732.0
% Change from Prior Year	6.2%	- - -
TOTAL IMPORTS	$196,202.7	$183,365.6
% Change from Prior Year	7.0%	- - -
MANUFACTURES IMPORTS	$105,358.4	$ 93,242.4
% Change from Prior Year	13.0%	- - -
PETROLEUM IMPORTS	$ 59,243.5	$ 59,457.9
% Change from Prior Year	-0.4%	- - -
TOTAL TRADE BALANCE	-$ 19,652.6	-$ 19,860.9
$ Change from Prior Year	$ 208.3	- - -
MANUFACTURES TRADE BALANCE	$ 11,688.6	$ 13,615.8
$ Change from Prior Year	-$ 1,927.2	- - -

U.S. - REGIONAL TRADE SUMMARY TABLE
SEPTEMBER 1981
EXPORTS: Millions of Dollars, f.a.s., Seasonally Adjusted Data
IMPORTS: Millions of Dollars, f.a.s., Seasonally Adjusted Data

	SEP 81	AUG 81	CUMULATIVE TO DATE
EXPORTS TO JAPAN	$ 1,712	$ 1,563	$15,987
% Change from Prior Period	9.5%	-16.3%	3.9%
IMPORTS FROM JAPAN	$ 2,904	$ 3,608	$27,441
% Change from Prior Period	-19.5%	18.7%	20.7%
BALANCE	-$ 1,192	-$ 2,045	-$11,454
$ Change from Prior Period	$ 853	-$ 873	-$ 4,120
EXPORTS TO CANADA	$ 3,247	$ 3,534	$30,686
% Change from Prior Period	-8.1%	1.4%	15.8%
IMPORTS FROM CANADA	$ 3,804	$ 4,368	$35,004
% Change from Prior Period	-12.9%	10.7%	15.2%
BALANCE	-$ 557	-$ 834	-$ 4,318
$ Change from Prior Period	$ 277	-$ 375	-$ 434
EXPORTS TO THE EUROPEAN COMMUNITY	$ 4,783	$ 4,220	$39,596
% Change from Prior Period	13.3%	-0.8%	-3.6%
IMPORTS FROM THE EUROPEAN COMMUNITY	$ 3,562	$ 4,167	$31,099
% Change from Prior Period	-14.5%	21.6%	13.9%
BALANCE	$ 1,221	$ 53	$ 8,497
$ Change from Prior Period	$ 1,168	-$ 771	-$ 5,270
EXPORTS TO OPEC	$ 1,823	$ 1,691	$16,034
% Change from Prior Period	7.8%	-8.5%	24.2%
IMPORTS FROM OPEC	$ 3,727	$ 3,872	$38,369
% Change from Prior Period	-3.7%	23.6%	-8.5%
BALANCE	-$ 1,904	-$ 2,181	-$22,335
$ Change from Prior Period	$ 277	-$ 897	$ 6,683
EXPORTS TO NON-OPEC LDCS	$ 5,128	$ 5,223	$50,590
% Change from Prior Period	-1.8%	-5.4%	10.1%
IMPORTS FROM NON-OPEC LDCS	$ 5,699	$ 6,010	$49,798
% Change from Prior Period	-5.2%	15.0%	7.4%
BALANCE	-$ 571	-$ 787	$ 792
$ Change from Prior Period	$ 216	-$ 1,082	$ 1,236

Figure A

U.S. TRADE BALANCES

Monthly Balances in Millions of Dollars
Seasonally Adjusted Data

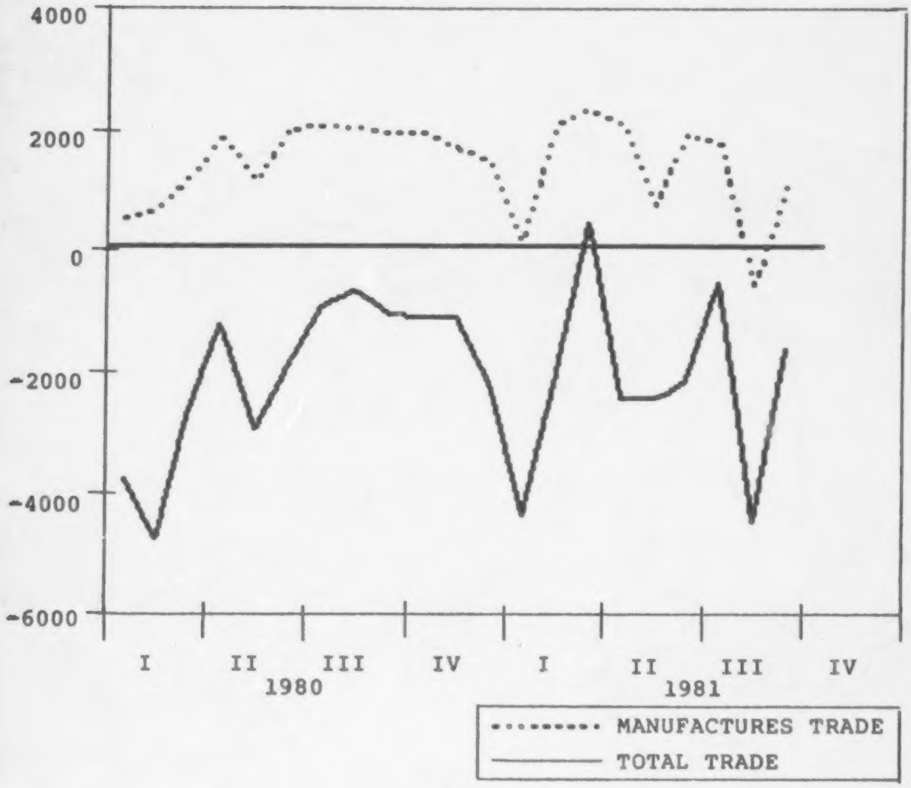


Figure B

U.S. TOTAL TRADE

Monthly Trade in Millions of Dollars
Seasonally Adjusted Data

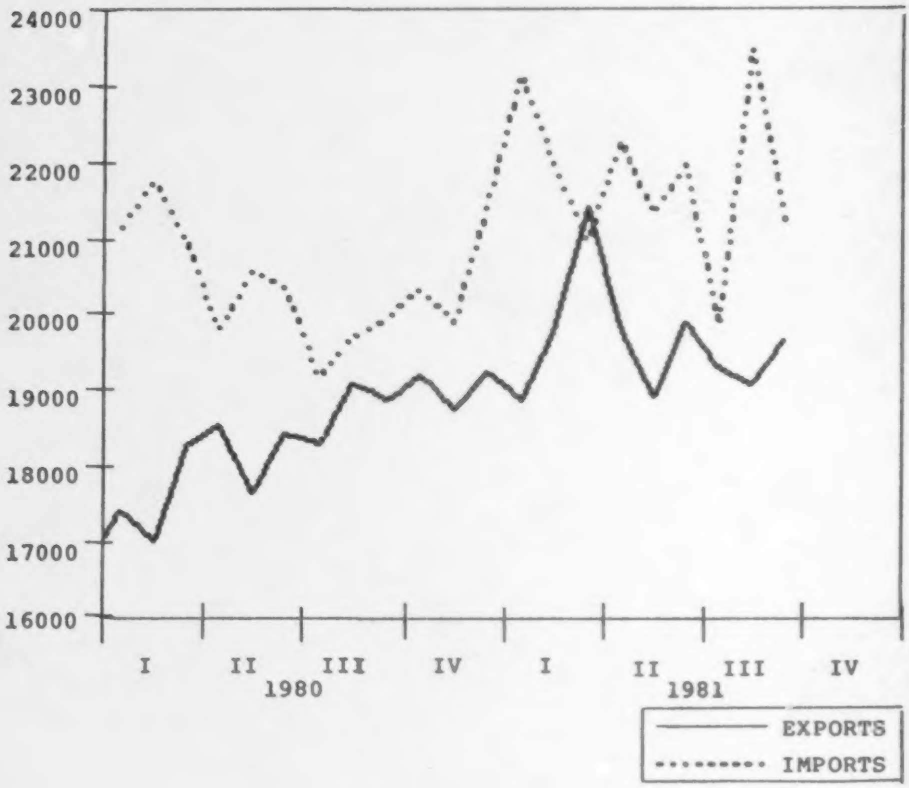
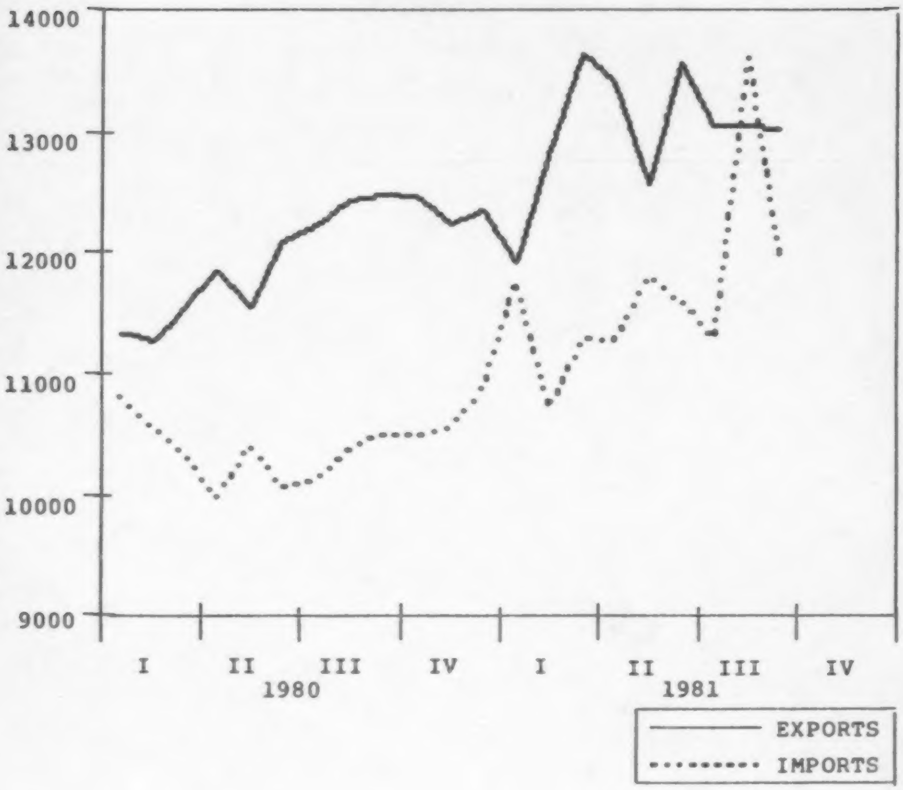
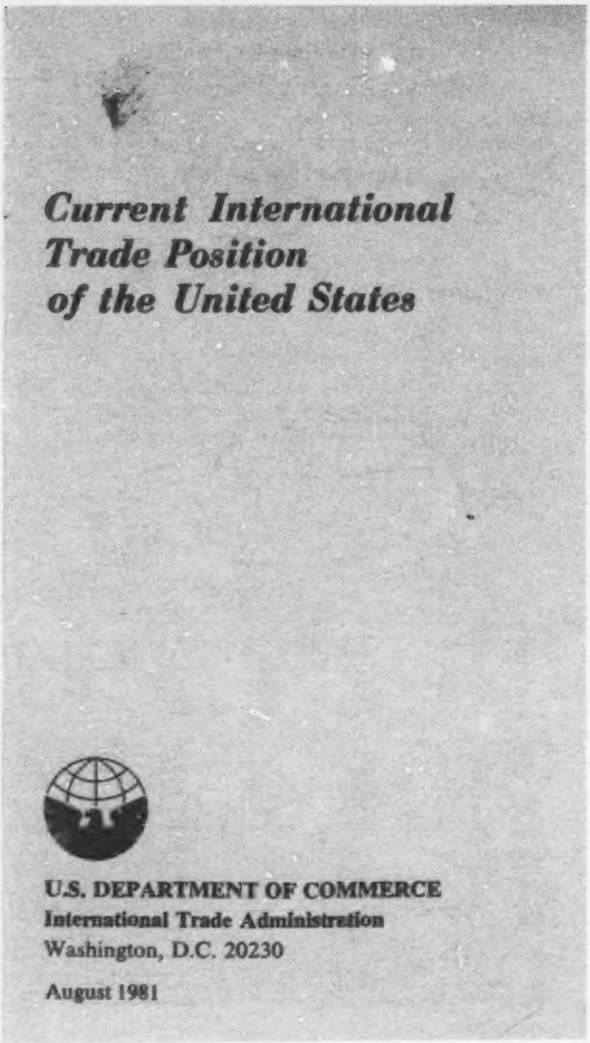


Figure C

U.S. MANUFACTURES TRADE

Monthly Trade in Millions of Dollars
Seasonally Adjusted Data



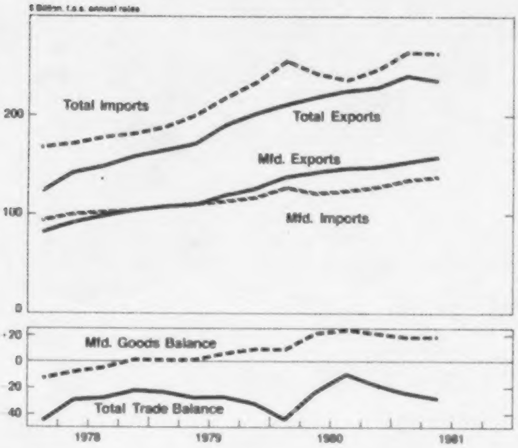


Current International Trade Position of the United States

U.S. DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

August 1981

U.S. MERCHANDISE TRADE

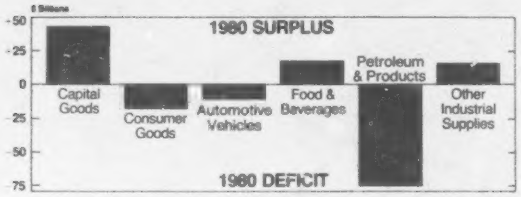


	Exports f.a.s.	Imports f.a.s.	Balance f.a.s.	Balance c.i.f.[1]
	(Billions of dollars, annual rates)			
Total trade[2]				
1980 annual	220.6	244.9	−24.2	−36.4
1980: II	218.6	242.8	−24.2	−37.0
III	224.7	235.2	−10.4	−21.6
IV	228.7	246.6	−17.9	−28.7
1981: I	240.1	264.3	−24.2	−36.2
II	234.2	262.3	−28.1	−40.1
Manufactures trade				
1980 annual	143.9	125.1	18.8	12.4
1980: II	142.1	121.8	20.3	13.5
III	148.6	124.2	24.4	18.3
IV	148.3	128.0	20.4	14.8
1981: I	153.5	135.1	18.4	12.3
II	158.1	138.8	19.3	13.0
Agricultural trade				
1980 annual	41.8	17.4	24.3	22.9
1980: II	39.9	17.7	22.2	20.8
III	42.6	15.9	26.7	25.4
IV	44.0	17.9	26.1	24.6
1981: I	49.7	19.3	30.4	28.7
II	43.2	17.1	26.0	24.4

[1] C.i.f. import values not shown. [2] Data on the U.S. Virgin Islands trade with foreign countries are included in U.S. trade statistics beginning 1981. Data for 1980 have been adjusted for this change.

Notes for tables: Quarterly data seasonally adjusted unless starred (*). All values in current dollars. f.a.s.—Free alongside ship. c.i.f.—Cost, insurance, and freight.

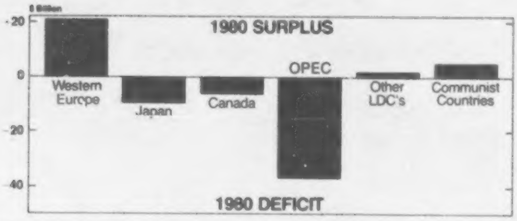
COMPOSITION OF U.S. TRADE



	Exports f.a.s.	Imports f.a.s.	Balance f.a.s.
	(Billions of dollars, annual rates)		
Capital goods			
1980 annual	72.6	29.6	43.0
1980: II	72.3	28.9	43.4
III	75.4	29.7	45.7
IV	75.8	30.9	44.9
1981: I	79.6	32.5	47.0
II	83.5	32.9	50.6
Consumer goods			
1980 annual	16.2	34.4	−18.3
1980: II	15.0	34.3	−19.4
III	15.6	34.2	−18.7
IV	15.8	35.0	−19.2
1981: I	16.4	37.3	−20.9
II	16.2	37.1	−21.0
Automotive vehicles and parts			
1980 annual	15.9	27.1	−11.2
1980: II	14.7	25.6	−10.9
III	15.8	28.1	−12.2
IV	16.8	28.7	−12.0
1981: I	17.5	26.9	−9.4
II	19.4	30.4	−11.0
Food and beverages			
1980 annual	35.3	18.1	17.2
1980: II	33.1	17.6	15.4
III	36.9	17.9	19.0
IV	37.8	19.0	18.8
1981: I	44.1	20.1	24.0
II	37.9	18.2	19.7
Petroleum and products			
1980 annual	2.8	78.8	−75.9
1980: II	2.7	84.1	−81.4
III	2.8	69.5	−66.8
IV	3.2	77.0	−73.8
1981: I	3.7	82.6	−78.9
II	3.1	84.4	−81.3
Other industrial supplies			
1980 annual	67.7	52.2	15.6
1980: II	72.5	51.7	20.8
III	65.5	49.0	16.6
IV	66.0	51.6	14.4
1981: I	68.0	55.9	12.2
II	63.2	58.1	5.1

Note: Commodity values do not add to U.S. trade totals because of omission of miscellaneous products. Quarterly data have been revised.

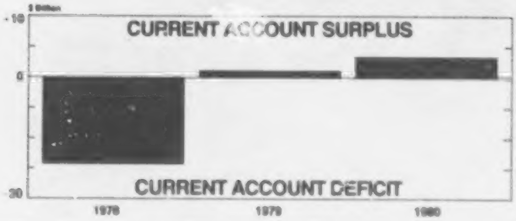
U.S. TRADE BY AREA



	Exports f.a.s.	Imports f.a.s.	Balance f.a.s.
	(Billions of dollars, annual rates)		
Western Europe			
1980 annual	67.5	46.6	20.9
1980: II	70.4	46.0	24.4
III	67.1	46.7	20.5
IV	63.1	46.4	16.8
1981: I	66.6	48.5	18.1
II	63.5	50.6	12.9
Japan			
1980 annual	20.8	30.7	− 9.9
1980: II	21.0	30.7	− 9.7
III	20.9	31.0	−10.1
IV	21.6	32.0	−10.4
1981: I	22.8	35.1	−12.3
II	20.6	36.4	−15.9
Canada			
1980 annual	35.4	41.5	− 6.1
1980: II	34.3	38.4	− 4.1
III	35.9	40.6	− 4.7
IV	35.7	44.3	− 8.6
1981: I	40.3	44.2	− 4.0
II	41.4	47.3	− 5.9
OPEC*			
1980 annual	17.8	55.3	−37.6
1980: II	17.6	56.9	−39.3
III	18.3	50.0	−31.7
IV	19.4	53.5	−34.1
1981: I	20.3	57.5	−37.3
II	22.4	53.0	−30.6
Other developing countries*			
1980 annual	63.4	61.7	1.7
1980: II	64.0	62.3	1.7
III	64.5	60.6	3.9
IV	69.7	61.3	8.4
1981: I	68.9	65.3	3.5
II	72.0	66.2	5.9
Communist countries*			
1980 annual	7.6	2.5	5.1
1980: II	5.8	2.4	3.4
III	6.8	2.7	4.1
IV	9.9	2.7	7.2
1981: I	11.0	3.3	7.7
II	5.8	3.6	2.2

Note: Areas are not intended to add to U.S. trade totals.

U.S. BALANCE OF PAYMENTS
CURRENT ACCOUNT



	Exports	Imports	Balance
	(Billions of dollars, annual rates)		
Current account total			
1980 annual	344.7	340.9 [1]	3.7
1980: II	334.5	336.6 [1]	- 2.2
III	346.6	326.7 [1]	19.9
IV	354.5	349.0 [1]	5.6
1981: I	376.6	364.3 [1]	12.3
Merchandise trade (adjusted, excl. military)[2]			
1980 annual	224.0	249.3	-25.3
1980: II	222.7	249.6	-27.0
III	225.0	236.6	-11.6
IV	228.6	250.9	-22.3
1981: I	244.5	262.9	-18.4
Services			
1980 annual	120.7	84.6	36.1
1980: II	111.8	81.6	30.1
III	121.6	84.1	37.5
IV	125.9	88.7	37.2
1981: I	132.2	95.4	36.8
Investment income and payments			
1980 annual . .	75.9	43.2	32.8
1980: II ...	67.4	41.4	26.1
III ...	75.4	42.8	32.6
IV ...	79.1	46.0	33.0
1981: I ...	85.7	50.2	35.5
Other services			
1980 annual . .	44.8	41.4	3.4
1980: II ...	44.4	40.3	4.1
III ...	46.2	41.3	4.9
IV ...	46.9	42.7	4.2
1981: I ...	46.5	45.2	1.3

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[1] Includes unilateral transfers.

[2] Values differ from those in "U.S. Merchandise Trade" table as they are adjusted to the balance of payments accounting.

KEY INTERNATIONAL COMPARISONS

Balance of Merchandise Trade

	Total		With U.S.[1]	
	1980	Jan-June 1981	1980	Jan-March 1981
	(Billions of dollars, annual rates)			
United States	−24.2	−26.1	----	----
France	−14.3	− 9.6	−5.8	−5.9
Germany, Fed. Rep.	+10.7	+11.8	−2.3	−3.1
United Kingdom	+ 2.4	(2)	−3.3	(2)
Japan	+ 2.0	+17.8	+7.3	+7.6

[1] Imports valued c.i.f. [2] Not available.

	% Change in Trade 1979 to 1980		Exports as % of GNP, 1980
	Exports	Imports	
United States	+21.3	+16.9	8.2
France	+15.6	+26.9	17.8
Germany, Fed. Rep.	+12.5	+18.0	23.4
United Kingdom	+27.3	+15.0	22.3
Japan	+25.1	+25.4	12.5

Share of World Exports

	1970	1975	1978	1979	1980
			(Percent)		
United States	15.4	13.6	12.1	12.1	12.0
France	6.4	6.7	6.7	6.7	6.3
Germany, Fed. Rep.	12.1	11.4	12.0	11.5	10.5
United Kingdom	7.0	5.6	6.0	6.1	6.3
Japan	6.9	7.1	8.3	6.8	7.1

Value and Share of Industrial Countries Manufactured Exports

	Value			Share[1]		
	1970	1975	1980	1970	1975	1980
		($ Billion)			(Percent)	
United States	29	71	144	21.3	19.1	18.3
France	14	40	84	9.1	10.2	10.2
Germany, Fed. Rep.	31	80	167	19.8	20.1	19.8
United Kingdom	17	37	86	10.4	8.9	9.9
Japan	18	53	124	8.9	11.4	11.9

[1] Excluding exports to United States.

FACTORS INFLUENCING U.S. COMPETITIVE POSITION

		1980			1981	
	1980	II	III	IV	I	II
	(% change from same period of previous year)					
Industrial Production						
United States ..	−3.5	−5.1	−6.9	−2.2	−0.3	5.5
France	−1.8	1.9	−3.0	−4.2	−8.4	
Germany, Fed. Rep.	0.3	1.2	−1.8	−3.6	−2.4	
United Kingdom	−6.8	−7.5	−8.0	−10.1	−9.1	
Japan	6.9	5.8	4.5	3.4	1.3	0.5
Wholesale Prices for Manufactures						
United States ..	14.3	14.9	14.0	12.5	10.7	10.6
France	8.7	8.6	6.4	8.1	6.4	
Germany, Fed. Rep.	7.1	7.8	6.3	6.0	5.3	5.8
United Kingdom	16.3	18.5	15.5	13.5	10.8	10.2
Japan	14.4	17.8	14.2	9.8	3.4	−0.1
Value of U.S. Dollar Vis-a-Vis Other Currencies						
13 currencies ...	−0.3	−0.2	−1.3	−1.1	2.2	8.9
French franc ...	−0.6	−3.7	−2.7	6.7	17.1	28.5
German D-mark	−0.8	−4.4	−2.2	8.0	17.4	25.7
U.K. pound ...	−8.8	−8.9	−6.3	−9.5	−2.4	9.9
Japanese yen ..	3.4	7.1	0.7	−11.8	−15.6	−5.3

	1960/70	1970/80	1978	1979	1980
	(% change, average annual rate)				
Productivity in Manufacturing					
United States	2.9	2.4	0.9	1.0	−0.5
France	6.1	4.9	4.9	4.7	3.3
Germany, Fed. Rep.	5.7	5.2	3.8	6.3	−0.7
United Kingdom	4.2	2.2	3.2	2.5	−1.3
Japan	10.5	7.4	6.8	8.1	6.2

U.S. IMPORTS OF PETROLEUM AND PRODUCTS

	Quantity (mil. bbl./day)	Value f.a.s. (bil. $)	Price per barrel (dollars)
		(Annual rates)	
1980 annual	7.0	78.6	30.64
1980: II	7.1	80.4	31.05
III	6.1	71.3	31.63
IV	6.4	76.7	32.43
1981: I	6.7	84.2	34.97
II	6.2	80.3	35.93

U.S. TRADE WITH MEXICO

	Exports f.a.s.	Imports f.a.s.	Balance f.a.s.
	(Billions of dollars)		
Total trade			
1979	9.8	8.8	1.0
1980	15.1	12.6	2.5
Capital goods			
1979	3.8	1.5	2.3
1980	5.2	1.8	3.4
Automotive vehicles and parts			
1979	1.1	0.3	0.8
1980	1.[illegible]	0.3	1.2
Food and beverages			
1979	0.9	1.6	−0.7
1980	2.3	1.4	0.9
Fuels			
1979	0.2	3.1	−2.9
1980	0.4	6.6	−6.2
Other industrial supplies			
1979	2.9	1.2	1.7
1980	4.3	1.1	3.2
Other products, including consumer goods			
1979	0.9	1.1	−0.2
1980	1.4	1.4	0.0

U.S. TRADE WITH EAST AND SOUTH ASIA LDCs

	Exports f.a.s.	Imports f.a.s.	Balance f.a.s.
	(Billions of dollars)		
Total trade			
1979	18.4	24.9	−6.5
1980	23.7	29.9	−6.2
Capital goods			
1979	7.2	3.5	3.7
1980	9.8	4.6	5.2
Consumer goods			
1979	1.0	11.5	−10.5
1980	1.2	13.2	−12.0
Food and beverages			
1979	3.0	1.3	1.7
1980	3.6	1.5	2.1
Fuels			
1979	0.3	3.5	−3.2
1980	0.5	5.4	−4.9
Other industrial supplies			
1979	5.5	4.6	0.9
1980	6.9	4.4	2.5
Other products, including automotive			
1979	1.4	0.5	0.9
1980	1.7	0.8	0.9

Note: Trade with the Far East countries excluding Japan, Australia, New Zealand, and Communist Areas.

This statistical information was compiled by ITA's Office of Planning and Research.

U.S. Department of Commerce
International Trade Administration
Policy Planning and Analysis

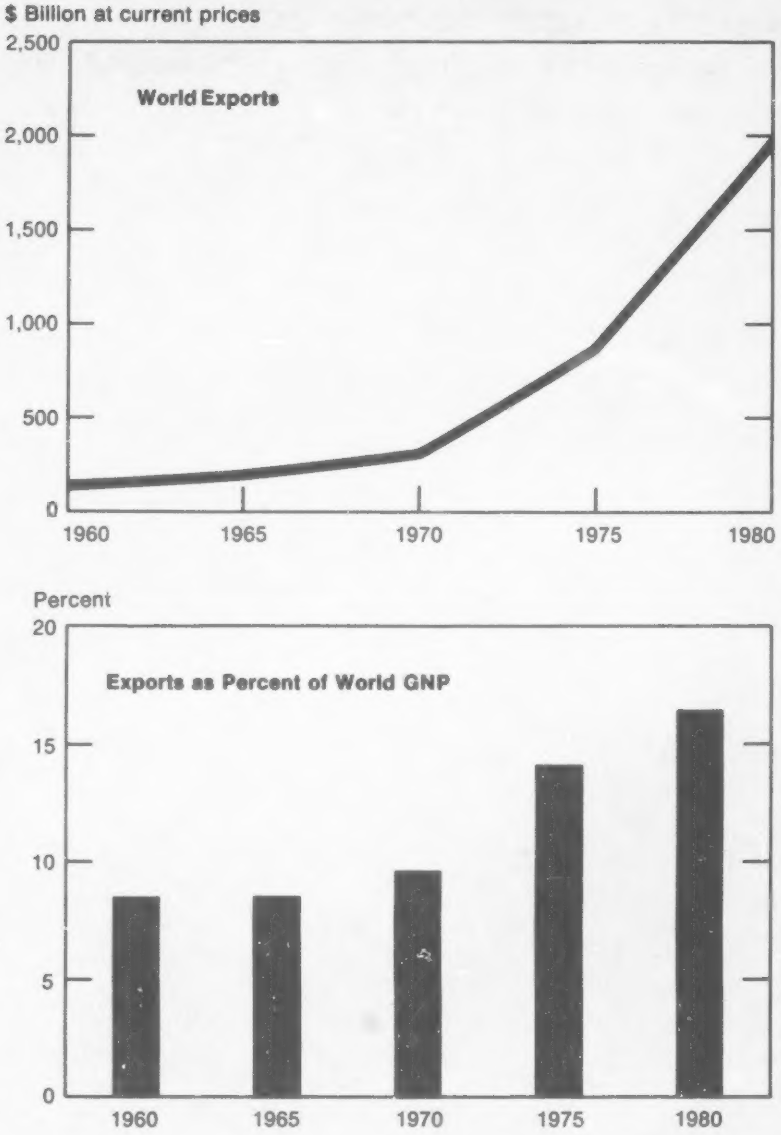
October 1981

U.S. Competitiveness in the International Economy

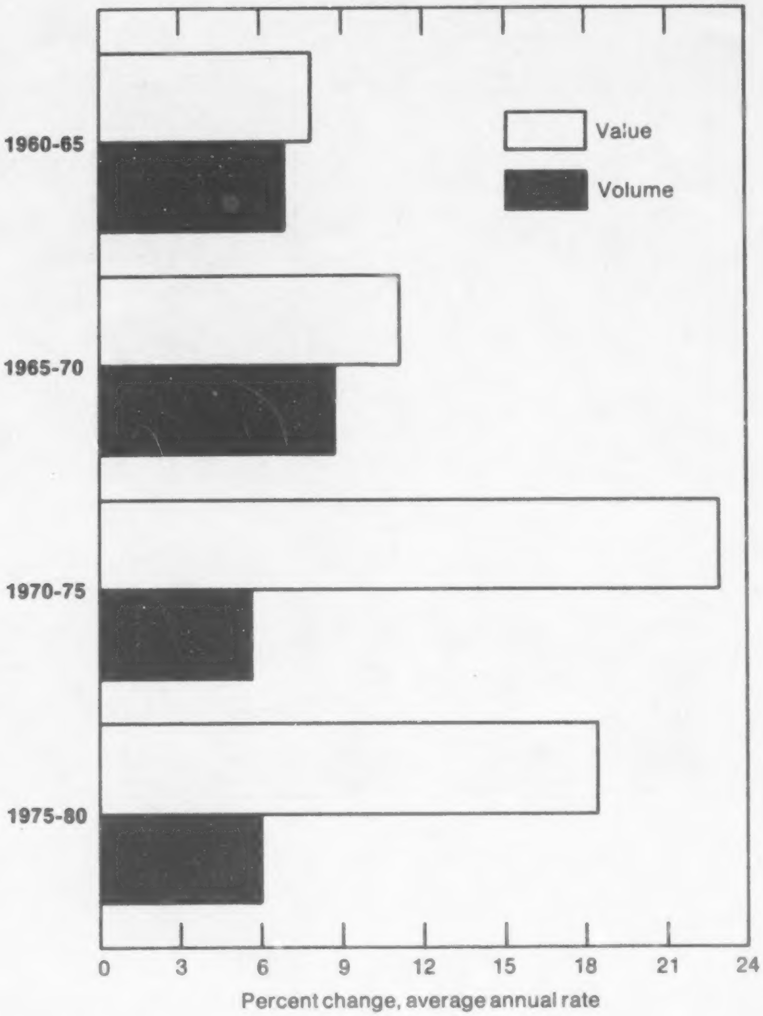
U.S. POSITION IN WORLD TRADE

The U.S. and other countries' economies have become increasingly interdependent

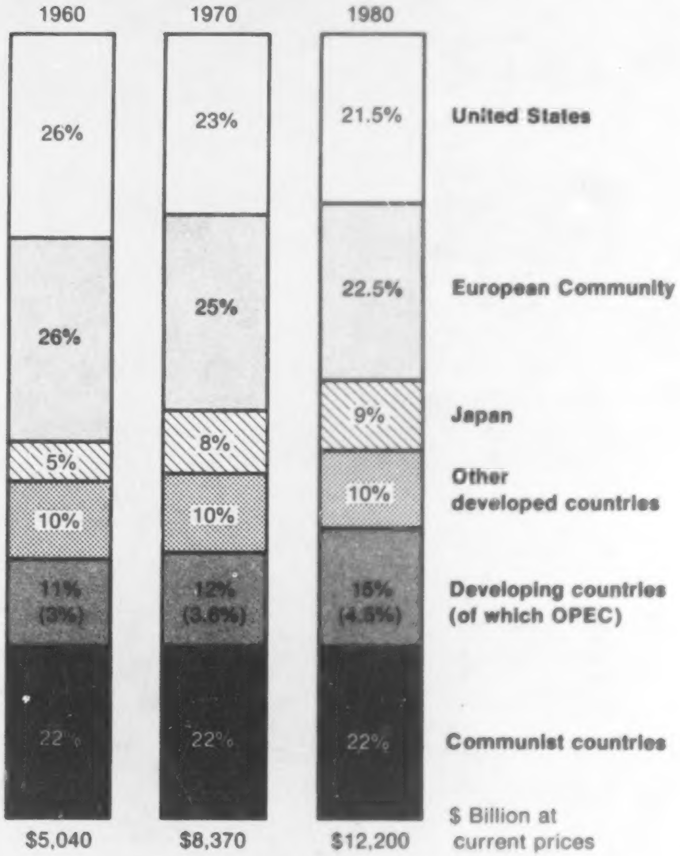
WORLD TRADE HAS EXPANDED GREATLY AND BECOME MORE IMPORTANT TO THE WORLD ECONOMY SINCE 1960



FREE-WORLD TRADE HAS SLOWED IN RECENT YEARS; MUCH OF GROWTH IS DUE TO HIGHER PRICES

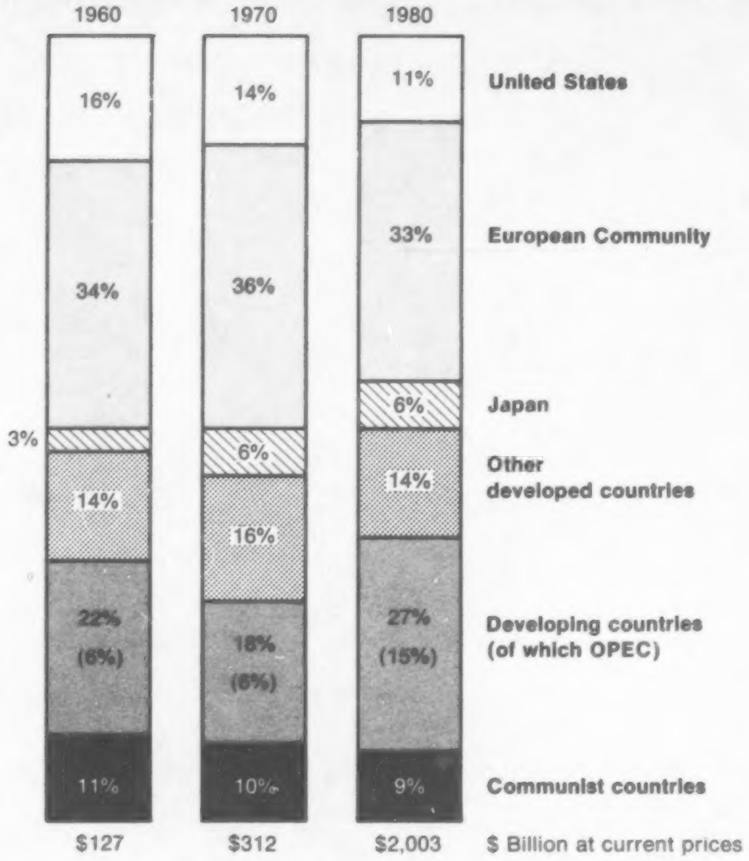


THE U.S. POSITION IN THE WORLD ECONOMY IS SHRINKING



SHARES OF WORLD GNP

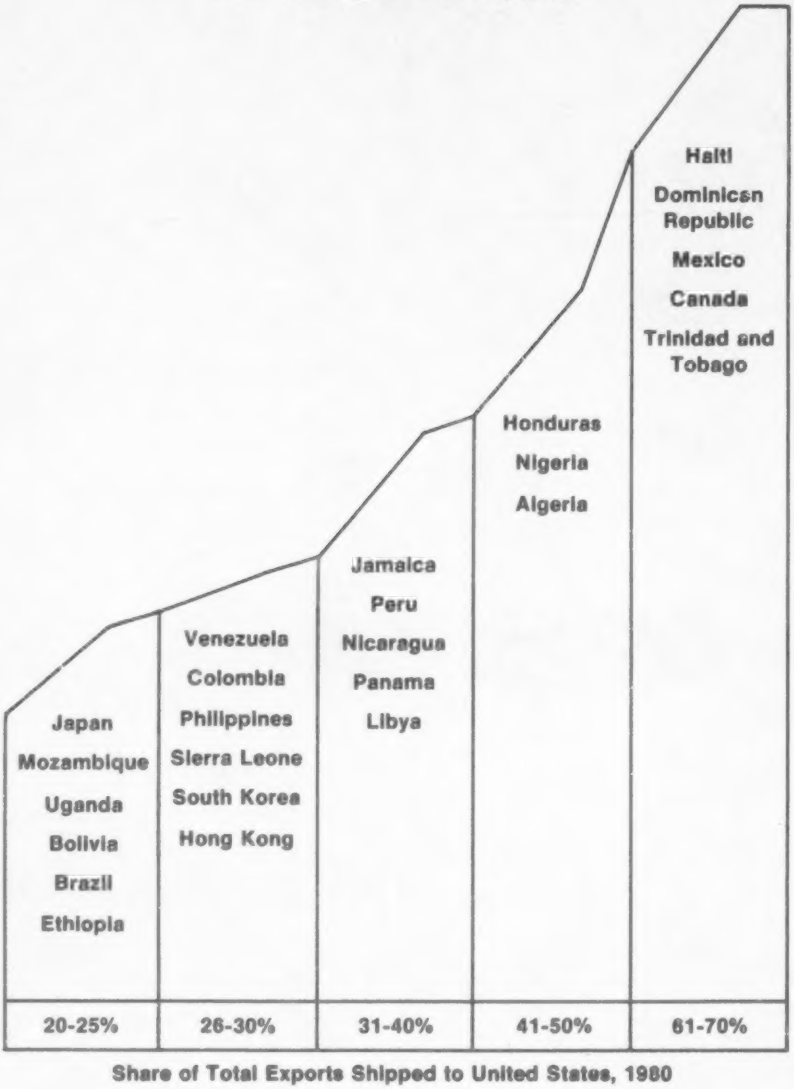
THE U.S. POSITION IS SHRINKING IN WORLD TRADE



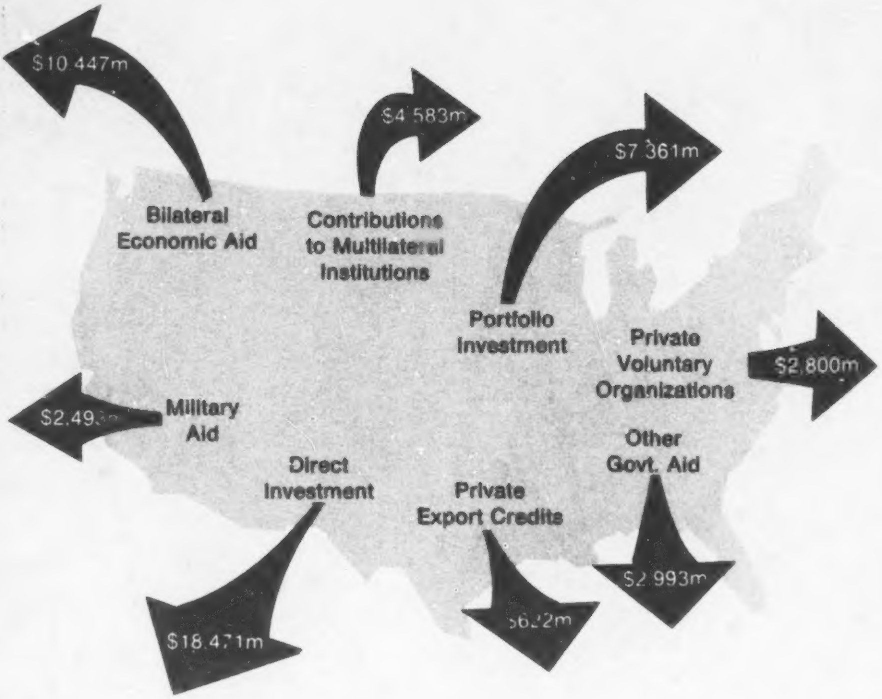
SHARES OF WORLD TRADE

THE U.S. IS THE WORLD'S LARGEST IMPORTER, ACCOUNTING FOR 13 PERCENT OF FREE-WORLD IMPORTS

Many countries depend heavily on the U.S. market for their exports

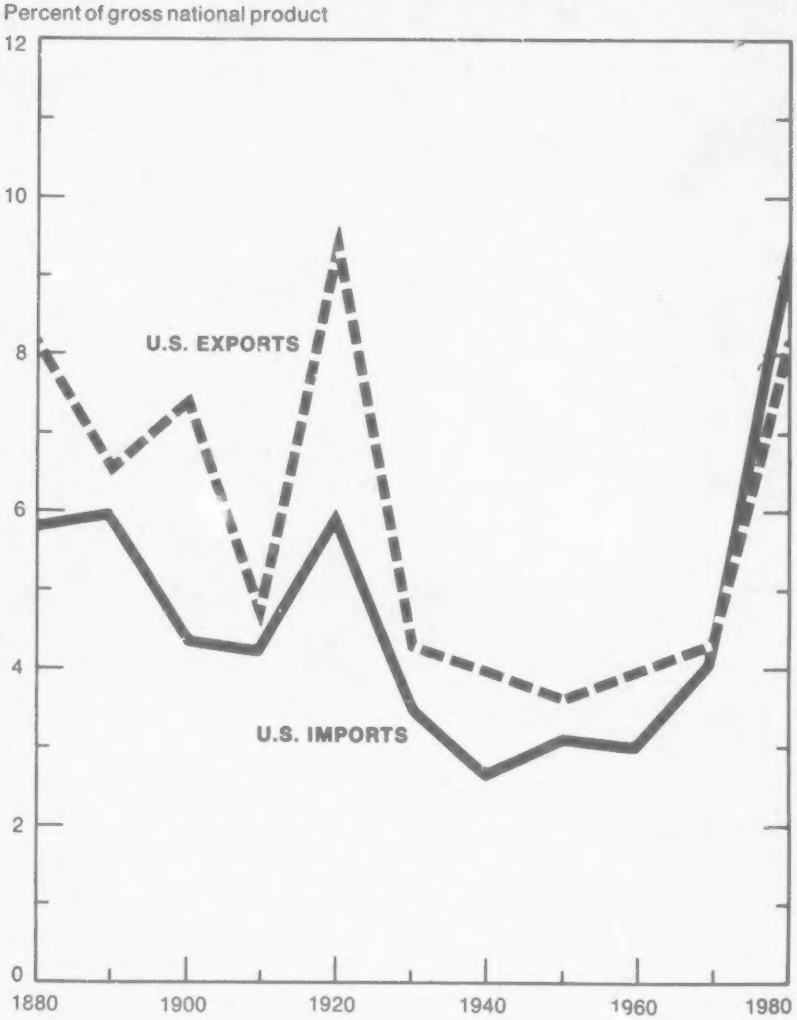


U.S. PROVIDES SUBSTANTIAL GOVERNMENT AID AND PRIVATE RESOURCE FLOWS TO THE WORLD - MOSTLY TO LDCs



Total for latest 3 years = $49,770 million

EXPORTS NOW ACCOUNT FOR 8.2 PERCENT OF GNP, THE SAME AS 100 YEARS AGO; IMPORTS ARE AT A RECORD RATIO



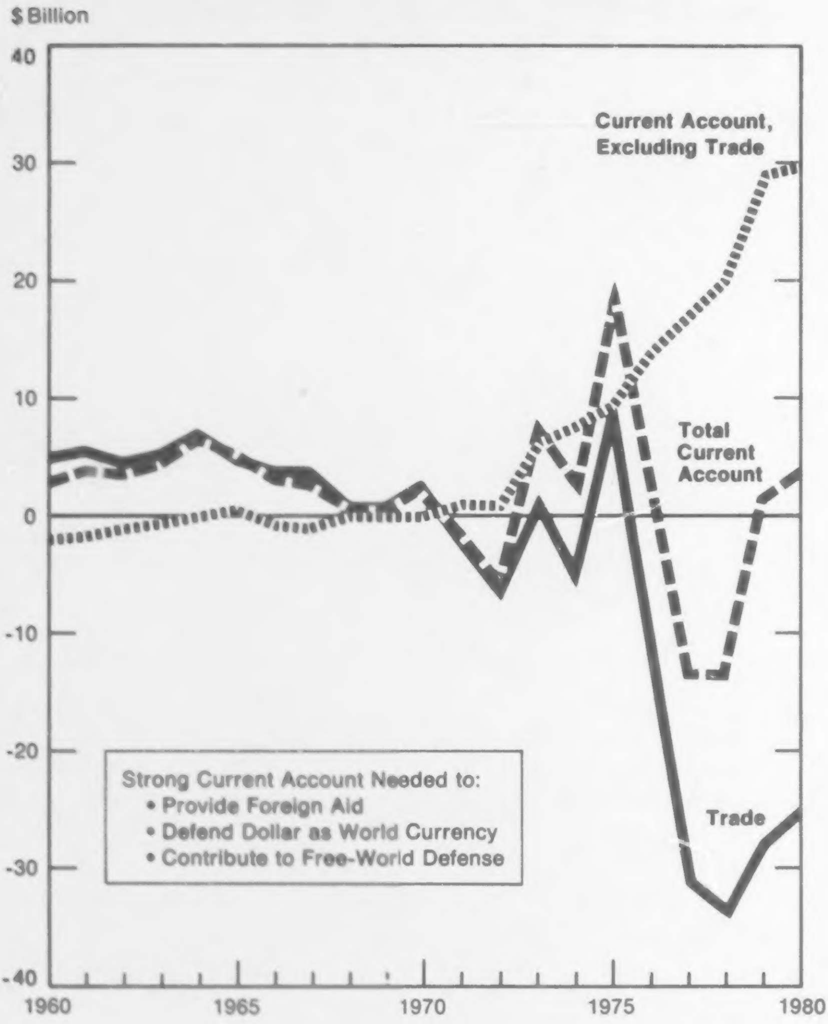
ABOUT 14 PERCENT — $1 OF EVERY $7—OF ALL GOODS PRODUCED IS EXPORTED. FOR MANY GOODS, THE PERCENTAGE IS MUCH HIGHER

INDUSTRIES	Percent
Oilfield machinery	63
Construction machinery	43
Turbines and turbine generator sets	32
Computers and related equipment	26
Farm machinery	18
FARM PRODUCTS	
Soybeans and products	60
Wheat	40

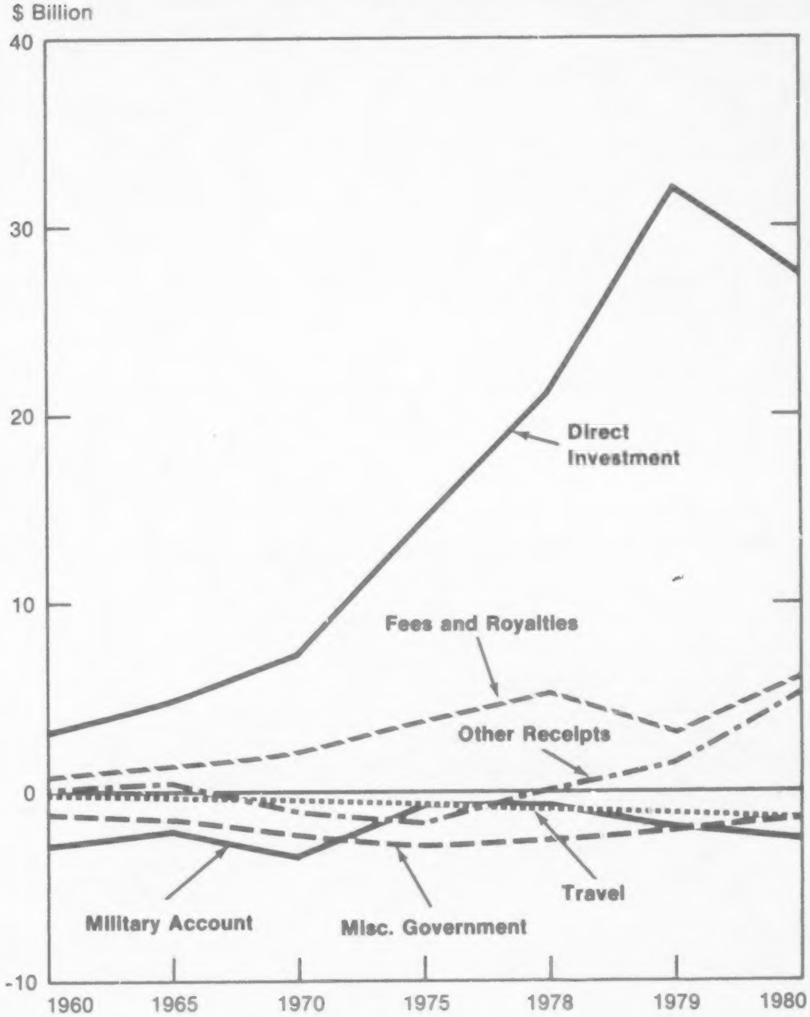
- Exports account for one of every nine jobs in manufacturing and for one of every $4 of farm sales.

U.S. MERCHANDISE TRADE POSITION

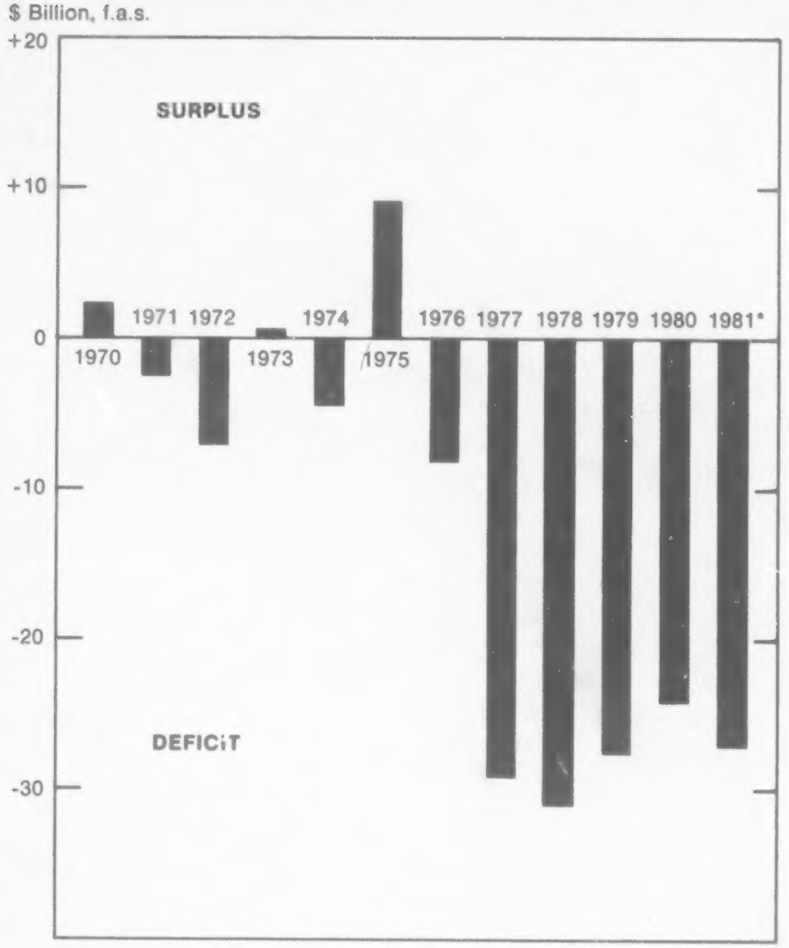
THE U.S. NEEDS A STRONG CURRENT ACCOUNT TO MAINTAIN ITS WORLD POSITION, BUT DEFICITS IN MERCHANDISE TRADE IN RECENT YEARS NEARLY OFFSET OTHER EARNINGS



DIRECT INVESTMENT EARNINGS DOMINATE THE SERVICES ACCOUNT, BUT THEY DROPPED SHARPLY IN 1980 REFLECTING CYCLICAL MOVEMENTS AT HOME AND ABROAD

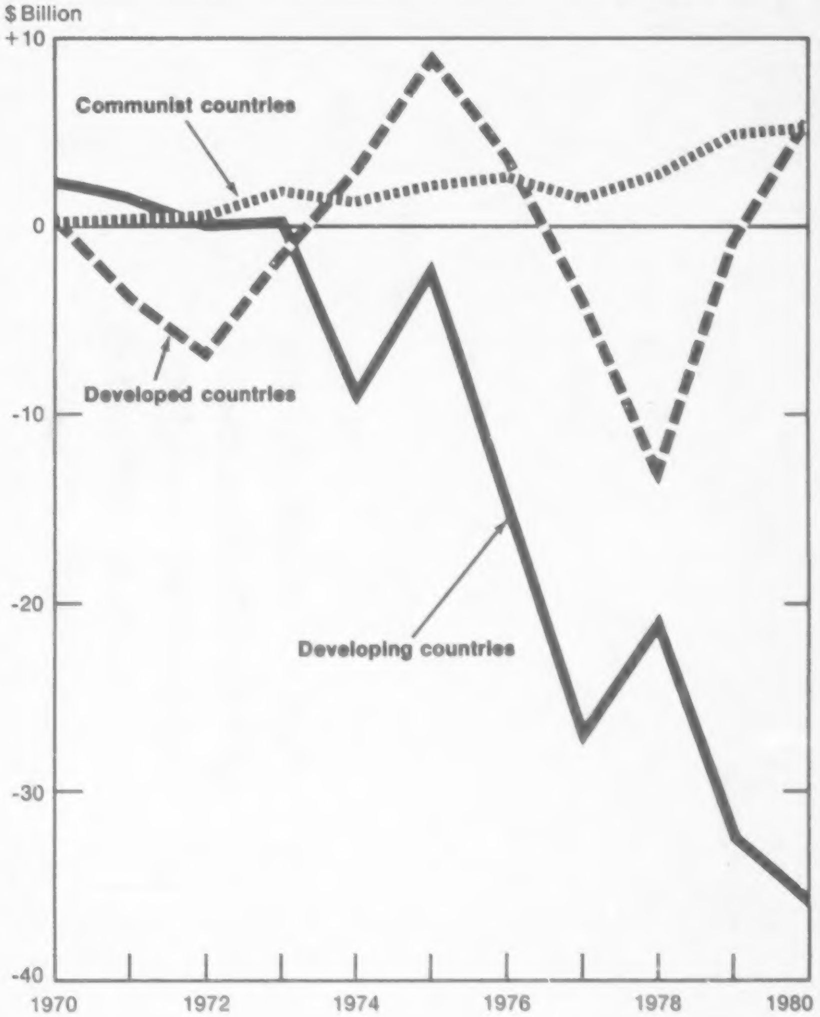


U.S. MERCHANDISE TRADE BALANCE, IN SURPLUS FOR MOST OF PAST CENTURY, HAS SHIFTED INTO DEFICIT IN 1970s AND 1980s

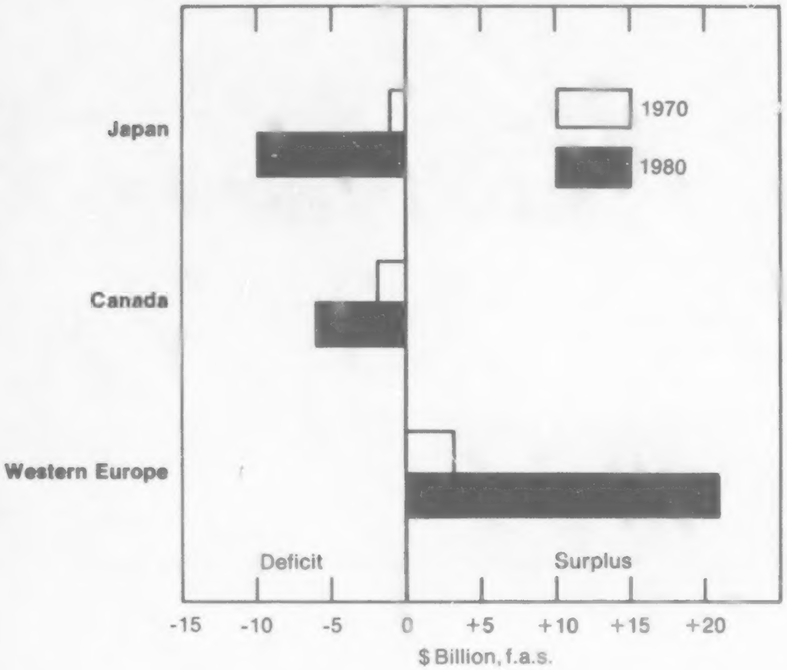


* January-August, seasonally adjusted, at annual rate.

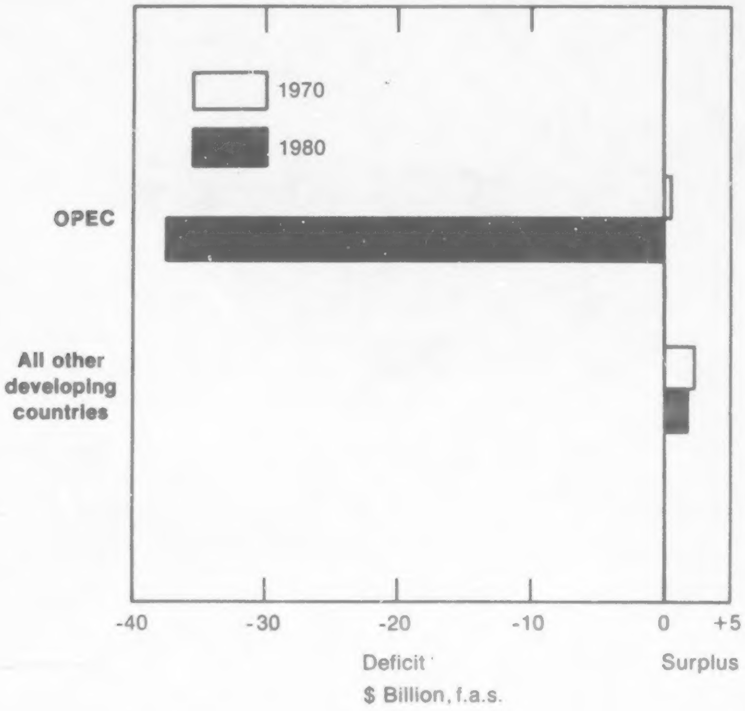
DEFICITS IN TRADE WITH LDCs OUTWEIGH FREQUENT SURPLUSES WITH DEVELOPED COUNTRIES AND COMMUNIST COUNTRIES



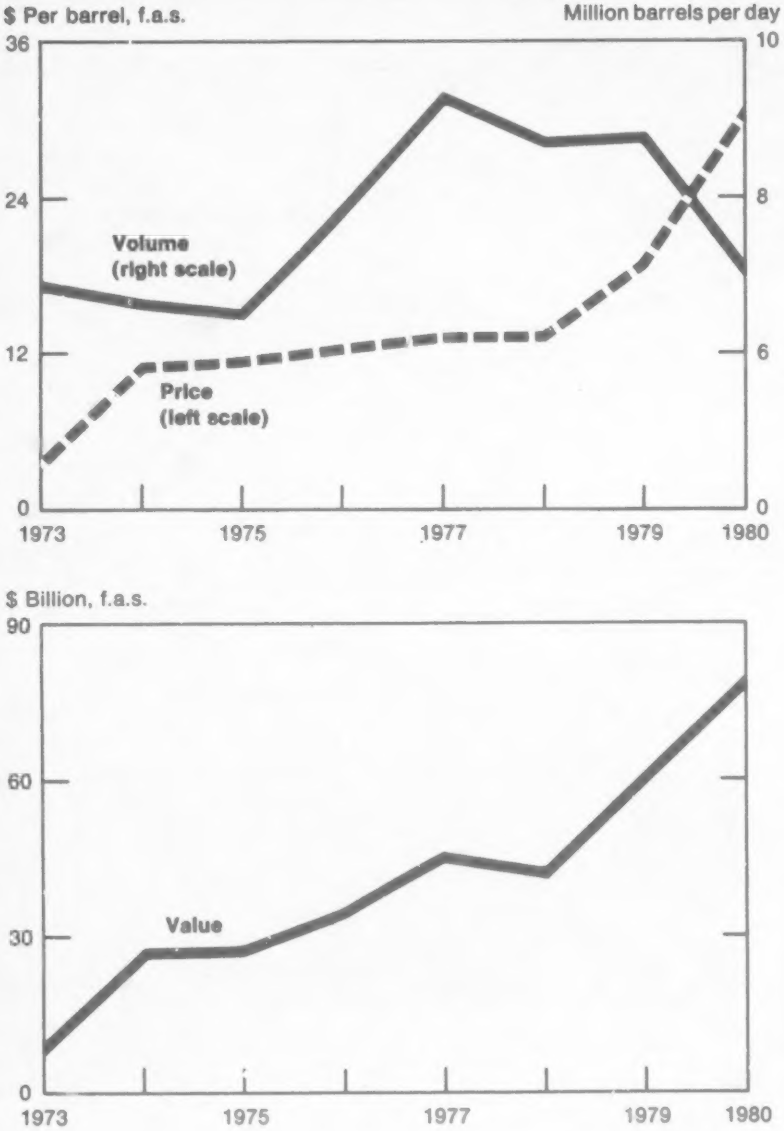
LARGE SURPLUS WITH WESTERN EUROPE CONTRASTS WITH DEFICITS VIS-A-VIS JAPAN AND CANADA



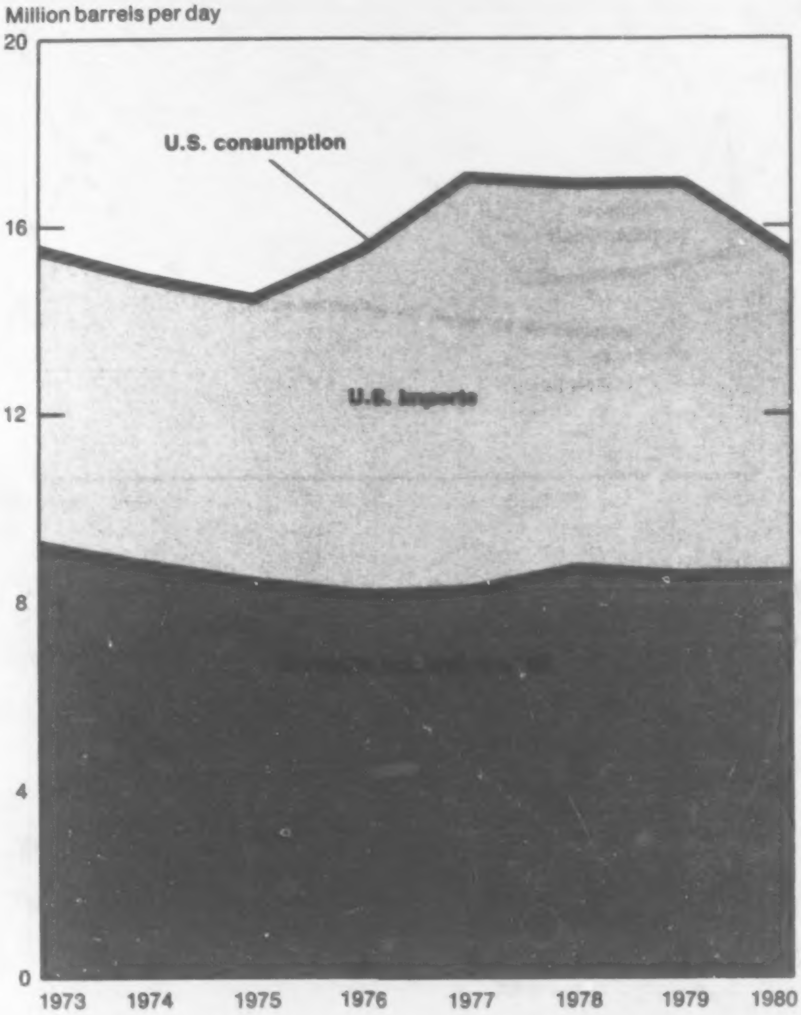
LARGE U.S. DEFICIT WITH OPEC CONTRASTS WITH SMALL SURPLUS WITH OTHER LDCs



PRICE INCREASES CAUSED U.S. OIL IMPORT BILL TO SOAR FROM 1973 TO 1980

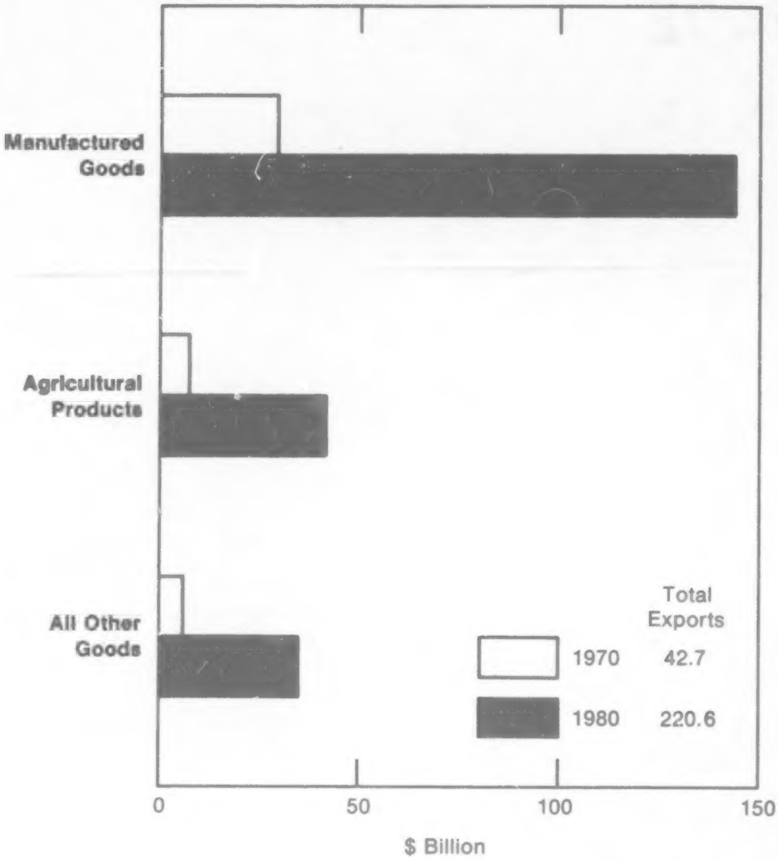


DECLINES IN CONSUMPTION OF PETROLEUM AND IMPROVED DOMESTIC PRODUCTION ARE MODERATING OIL IMPORTS



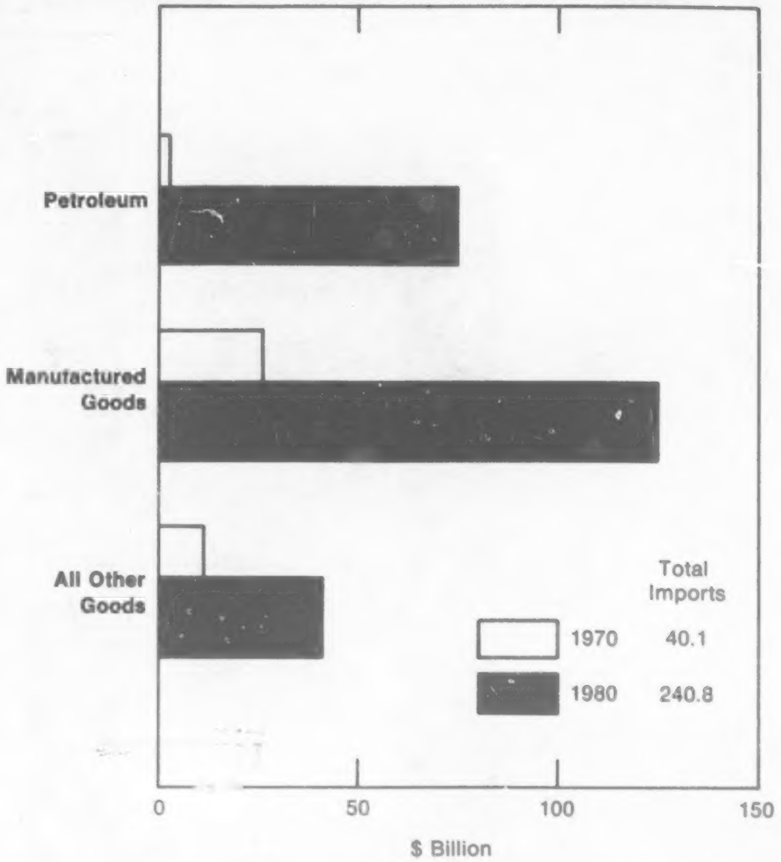
U.S. MANUFACTURES TRADE

U.S. EXPORT GROWTH IS PRINCIPALLY DETERMINED BY SALES OF MANUFACTURED GOODS



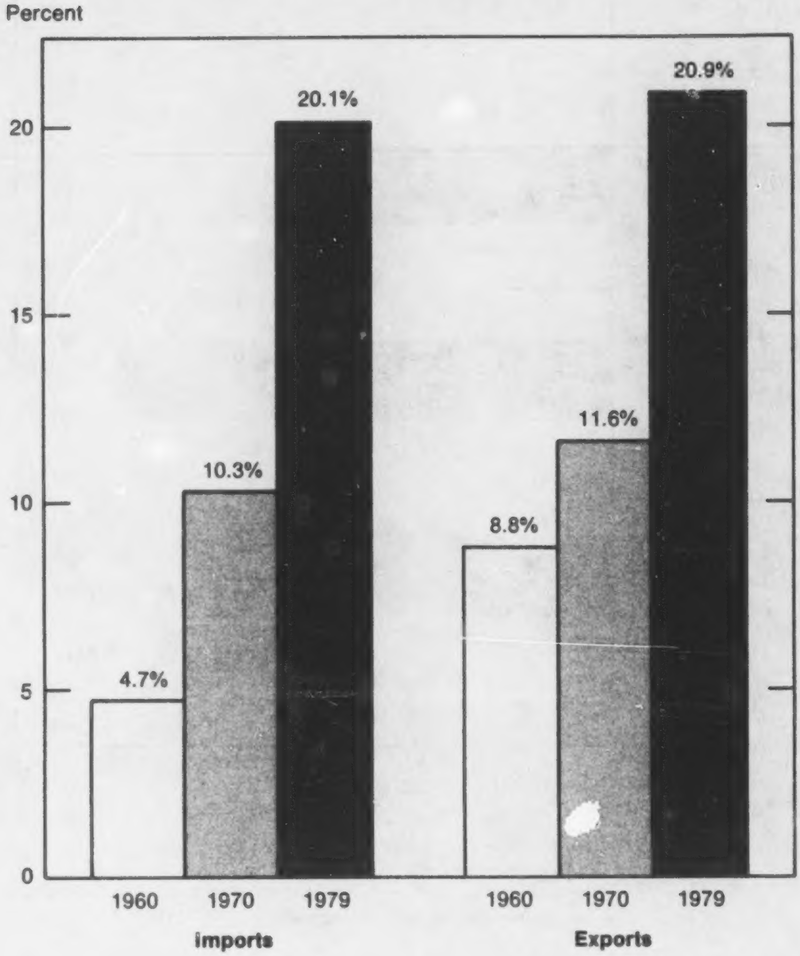
- Two-thirds of export growth in 1970s resulted from manufactures.
- Exports of manufactures grew by $115 billion from 1970 to 1980, a five fold increase.
- Agricultural exports rose $34.5 billion.

MANUFACTURED GOODS - NOT OIL - DOMINATED THE IMPORT RISE FROM 1970 TO 1980



- Half of U.S. import growth in the 1970s stemmed from manufactures, and about one-third from greater oil imports.
- Imports of manufactures grew by $100 billion from 1970 to 1980.
- Petroleum imports rose $72 billion.

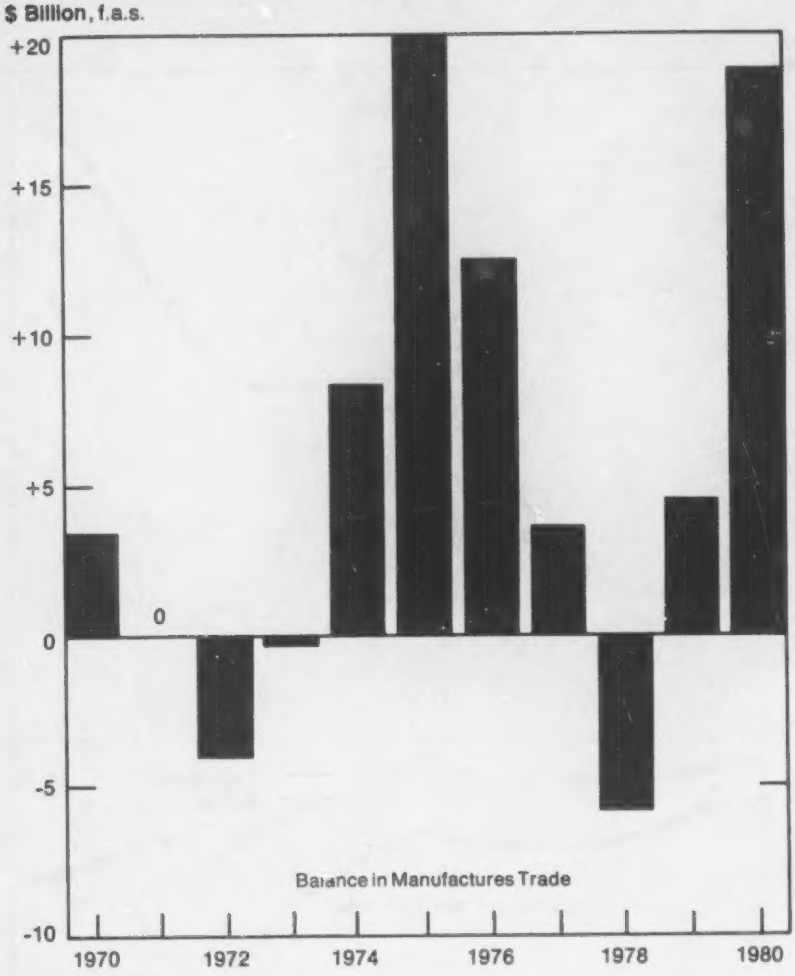
MANUFACTURED IMPORTS AS A SHARE OF PRODUCTION QUADRUPLED FROM 1960, WHILE EXPORTS SLIGHTLY MORE THAN DOUBLED



IMPORTS AS A SHARE OF U.S. CONSUMPTION

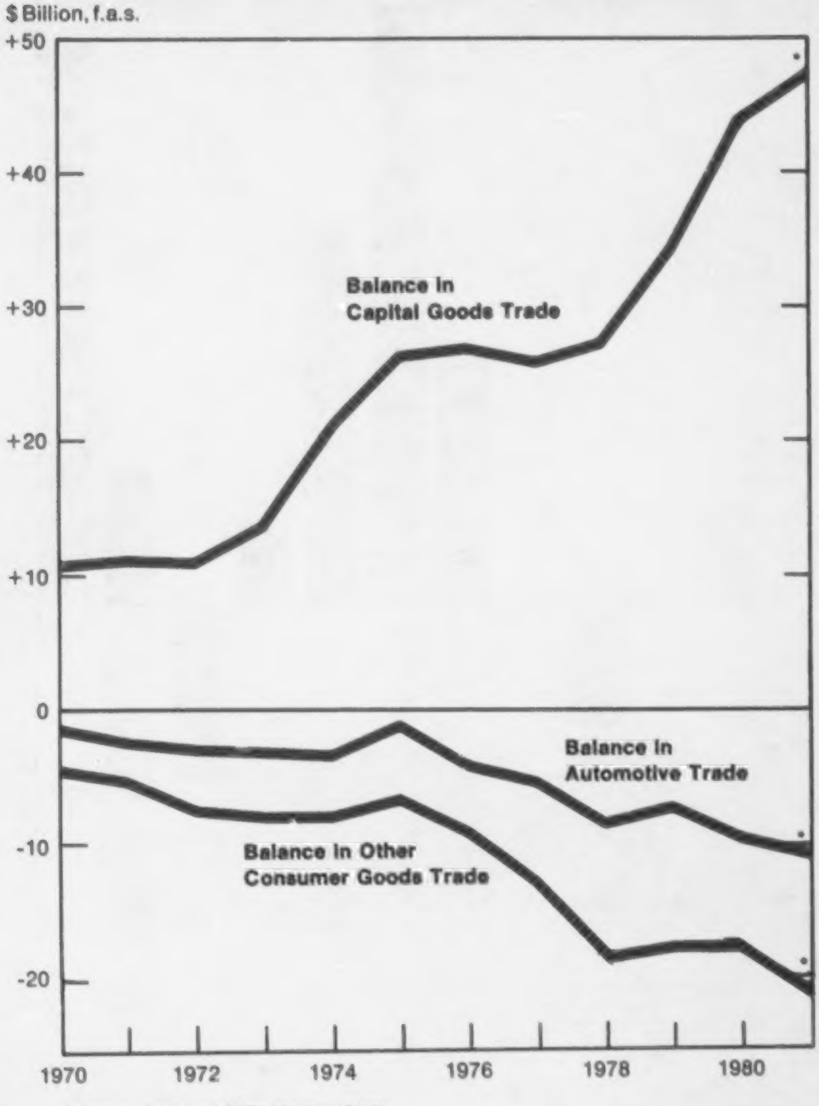
Radio and TV sets	47%
Footwear	34%
Motor vehicles	20%
Steel	17%

THE U.S. HAS TRADITIONALLY RUN SURPLUSES IN MANUFACTURES TRADE, BUT SINCE 1970 THE BALANCE HAS FLUCTUATED WIDELY



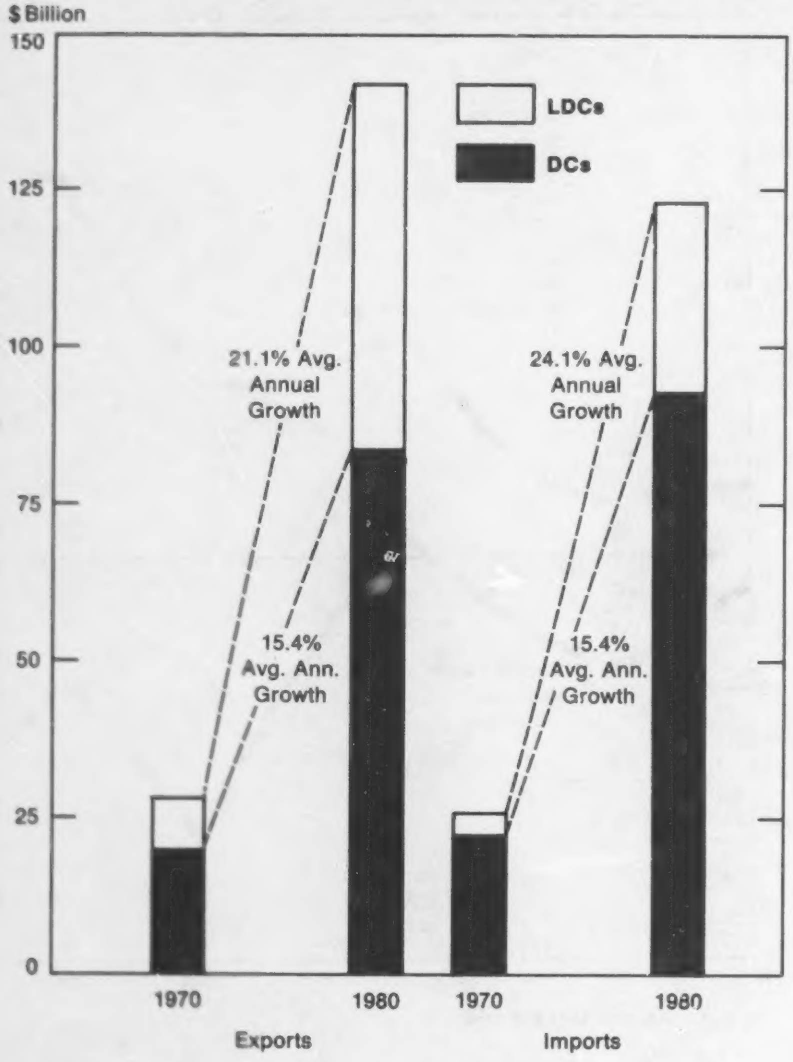
• For some decades prior to 1970 U.S. manufactures trade was in surplus.

THE U.S. IS VITALLY DEPENDENT ON CAPITAL GOODS SURPLUS TO OFFSET DEFICITS IN AUTOMOTIVE AND OTHER CONSUMER GOODS TRADE AS WELL AS TO HELP PAY FOR OIL IMPORTS



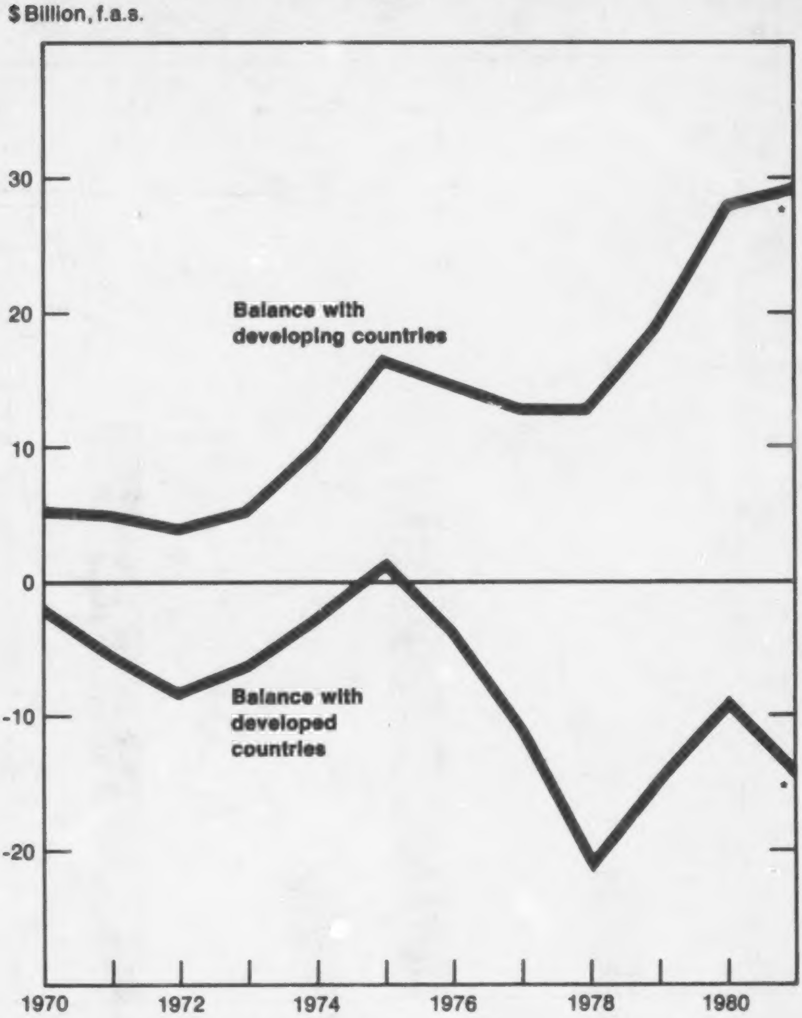
* January-August 1981 at annual rate.

THE DEVELOPING COUNTRIES ARE BECOMING INCREASINGLY IMPORTANT IN U.S. MANUFACTURES TRADE



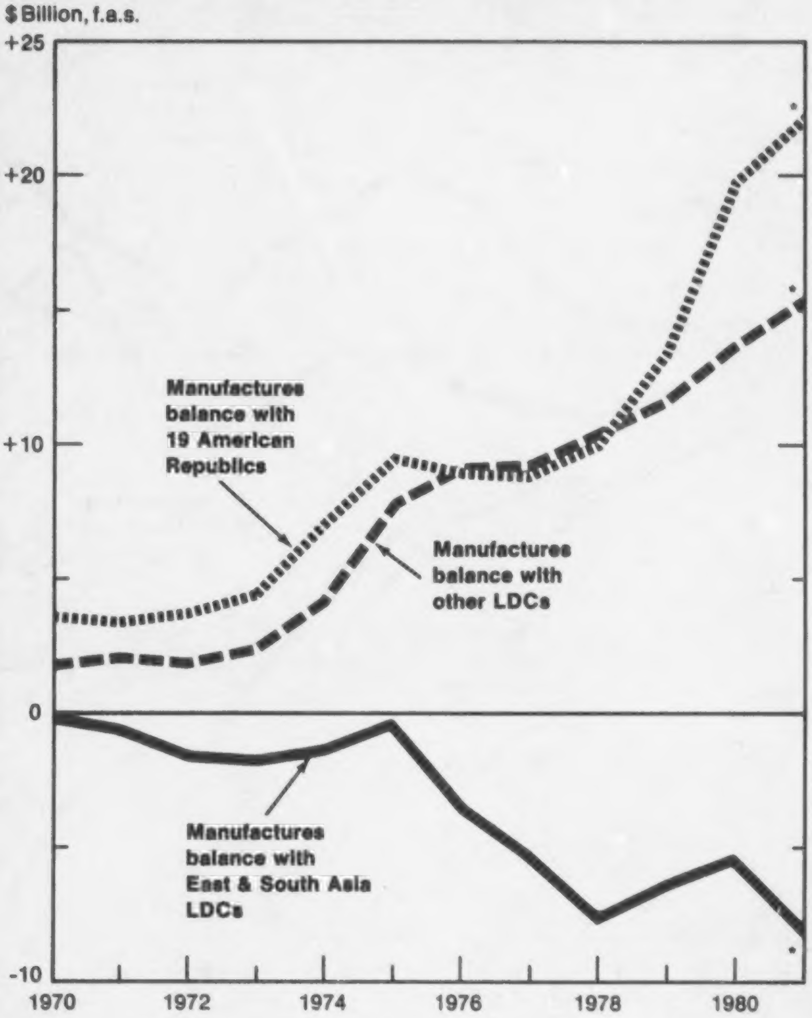
- LDC share of total U.S. exports rose from 30% in 1970 to 41% in 1980.
- LDC share of total U.S. imports rose 14% in 1970 to 24% in 1980.

MANUFACTURES TRADE IS IN SURPLUS WITH LDCs BUT IN DEFICIT WITH DEVELOPED COUNTRIES



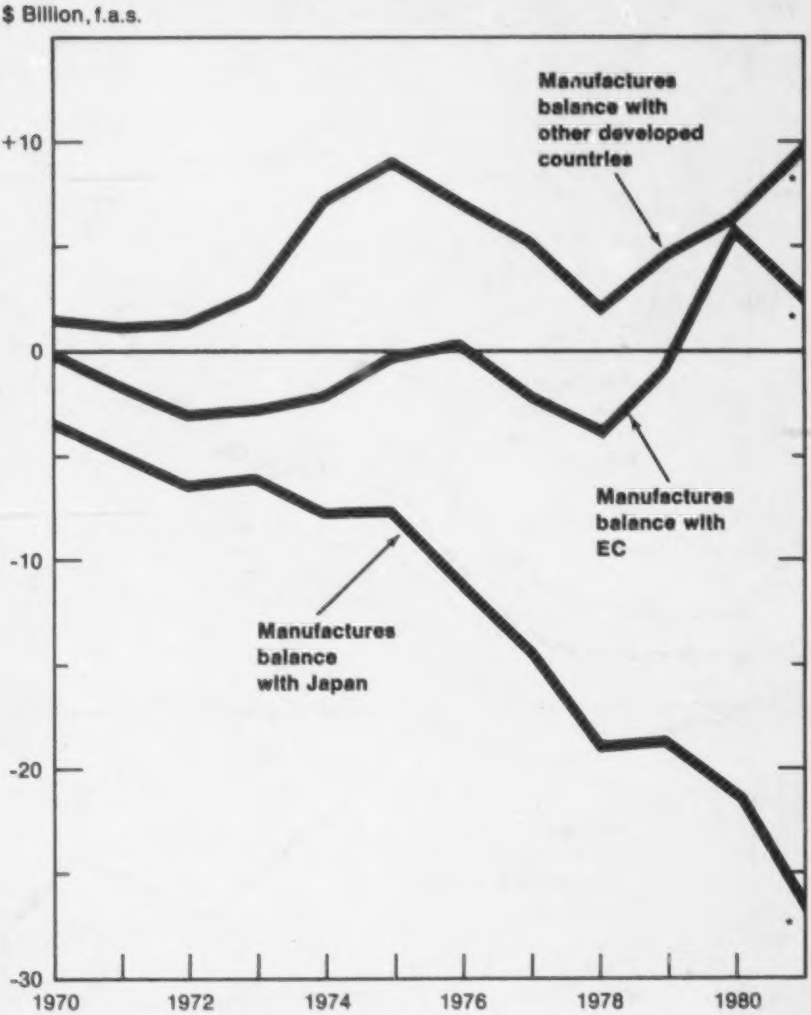
* January-August 1981 at annual rate.

MANUFACTURES TRADE IS IN LARGE SURPLUS WITH AMERICAN REPUBLICS AND OTHER LDCs EXCEPT SOUTH & EAST ASIA



* January-August 1981 at annual rate.

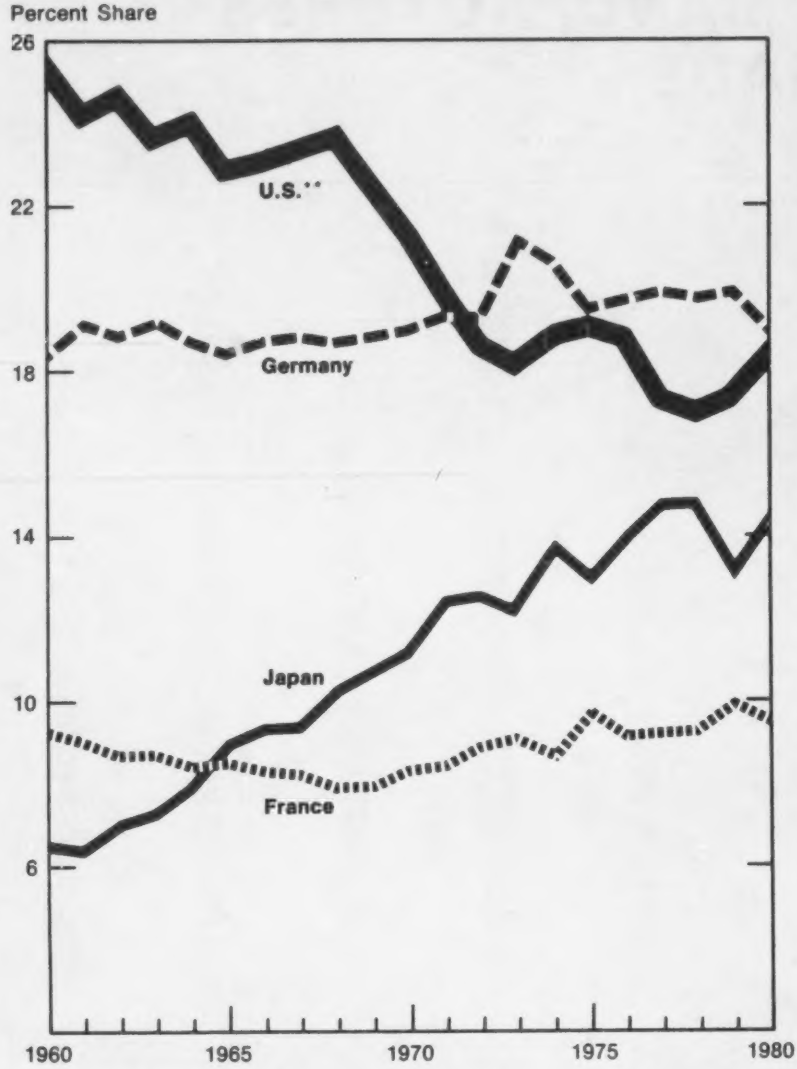
GROWING DEFICITS WITH JAPAN DOMINATE MANUFACTURES TRADE WITH DEVELOPED COUNTRIES



* January-August 1981 at annual rate.

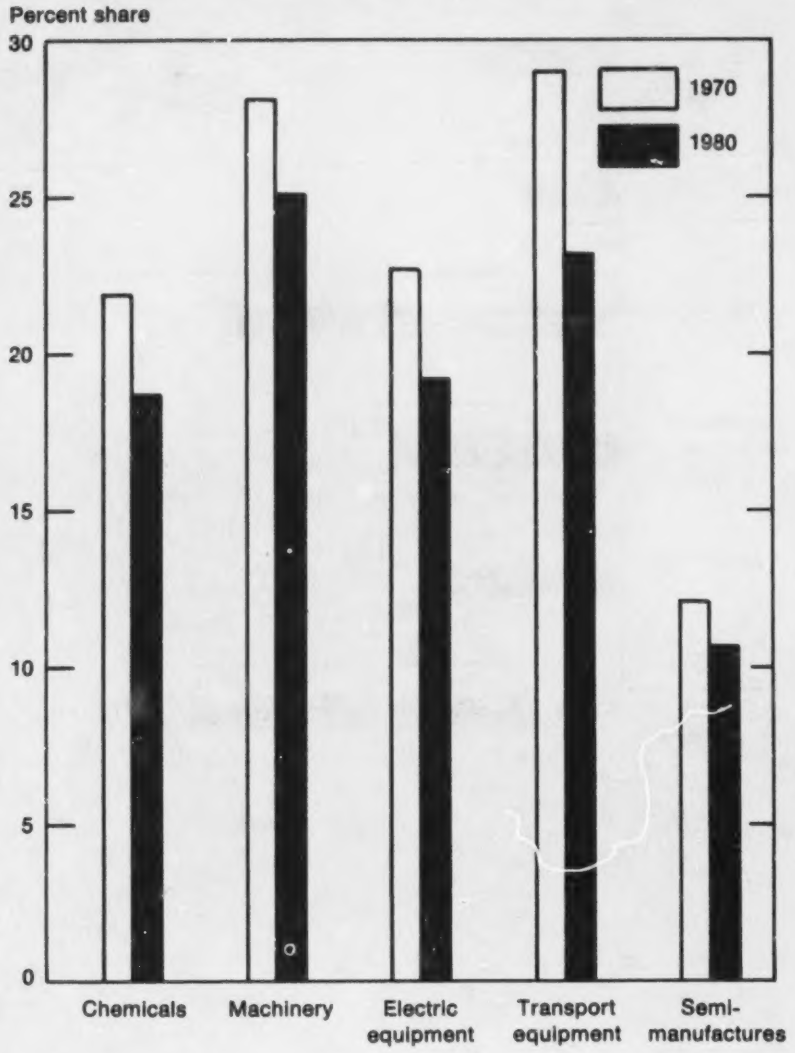
COMPETITIVE FACTORS IN MANUFACTURES TRADE

U.S. COMPETITIVENESS IN WORLD* MANUFACTURES TRADE HAS DECLINED SHARPLY

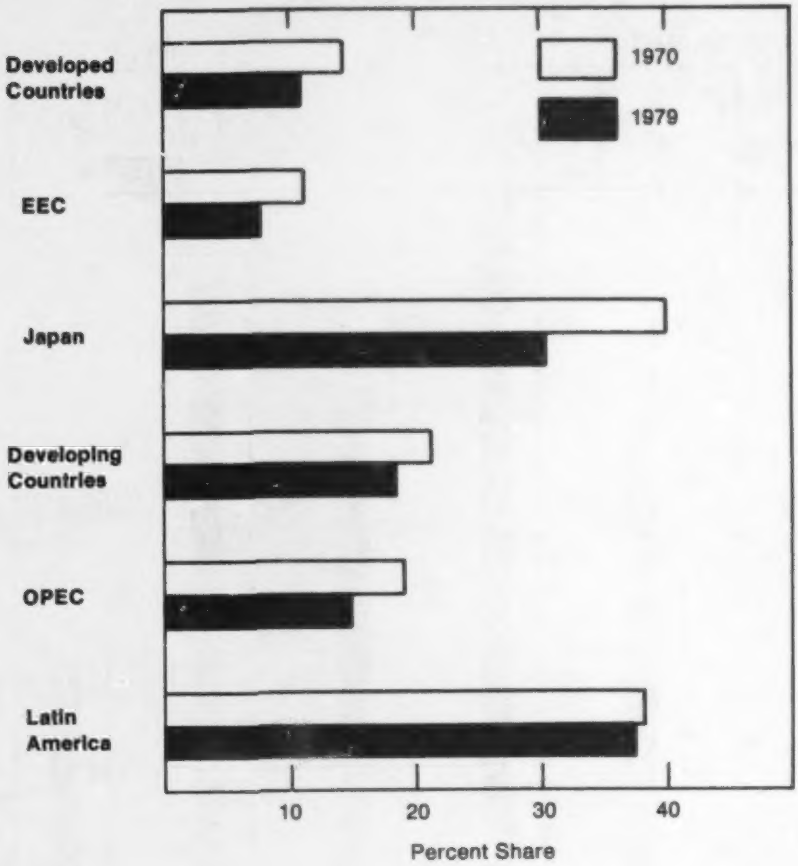


* Exports from 15 major industrial countries.
** Excluding exports to the United States.

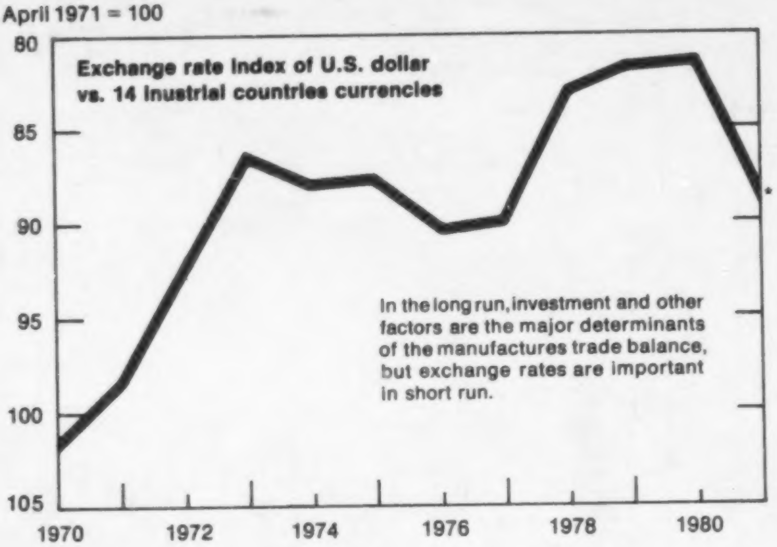
U.S. SHARE OF MANUFACTURES EXPORTS HAS DECLINED IN ALL MAJOR COMMODITY GROUPS



THE U.S. SHARE OF MANUFACTURES EXPORTS TO ALL MAJOR AREAS HAS DECLINED

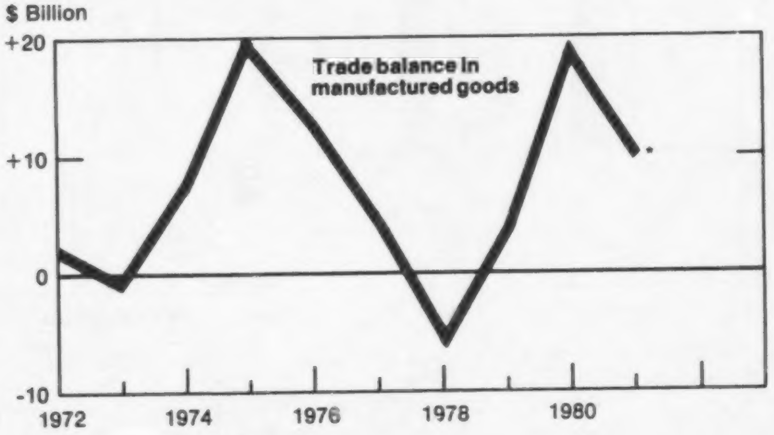


EXCHANGE RATE FLUCTUATIONS ARE A MAJOR FACTOR INFLUENCING THE TRADE BALANCE IN MANUFACTURED GOODS IN THE SHORT RUN



In the long run, investment and other factors are the major determinants of the manufactures trade balance, but exchange rates are important in short run.

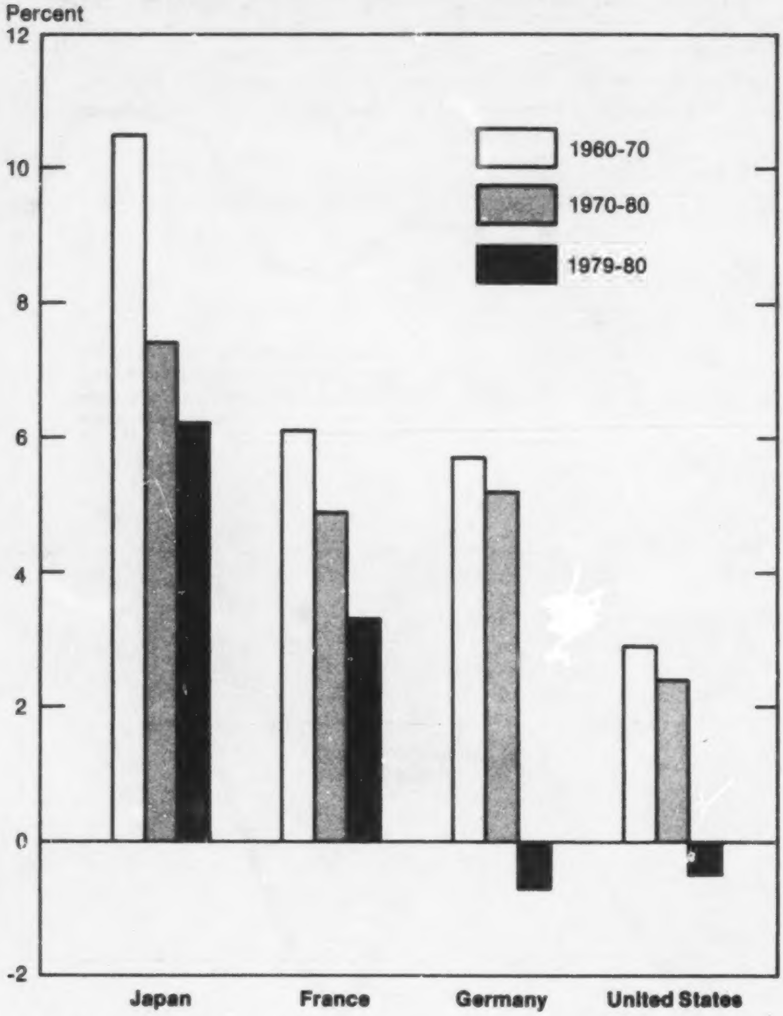
* January-September 1981 average.



* January-September 1981 at annual rate.

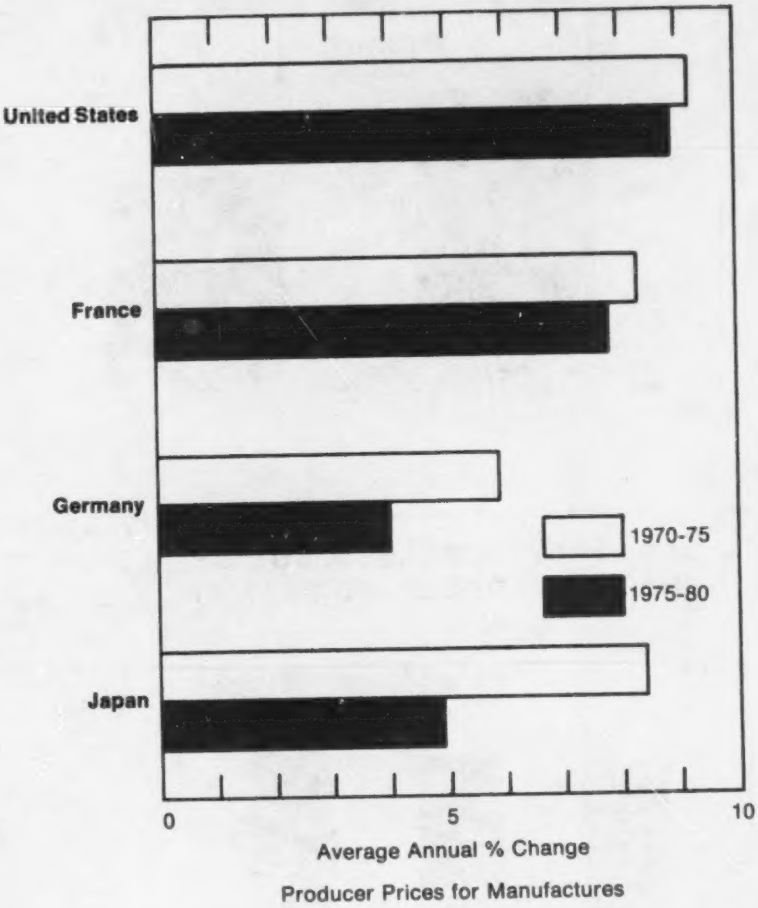
Note: Trade data are shown with a two-year lag to allow for exchange rate changes to take effect.

U.S. PRODUCTIVITY GROWTH CONTINUES TO LAG BEHIND MAJOR COMPETITORS

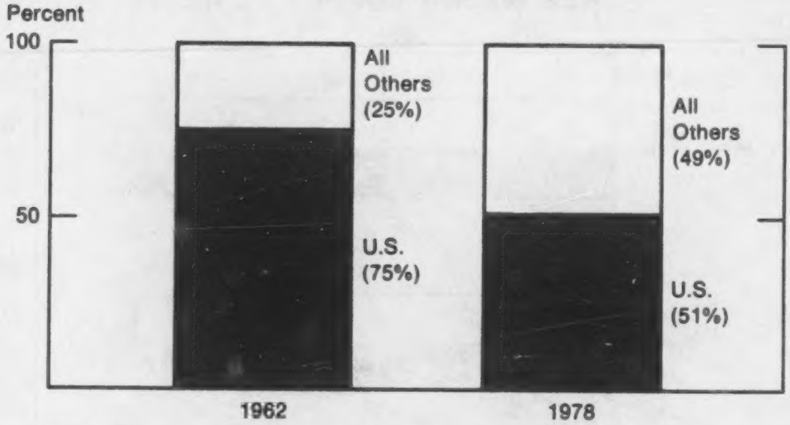


- U.S. productivity only 1.4% above 1977, Japan, 23%, France, 13%, Germany, 10%.

U.S. PRODUCER PRICES FOR MANUFACTURES HAVE BEEN RISING FASTER THAN THOSE OF OTHER MAJOR SUPPLIERS IN 70s

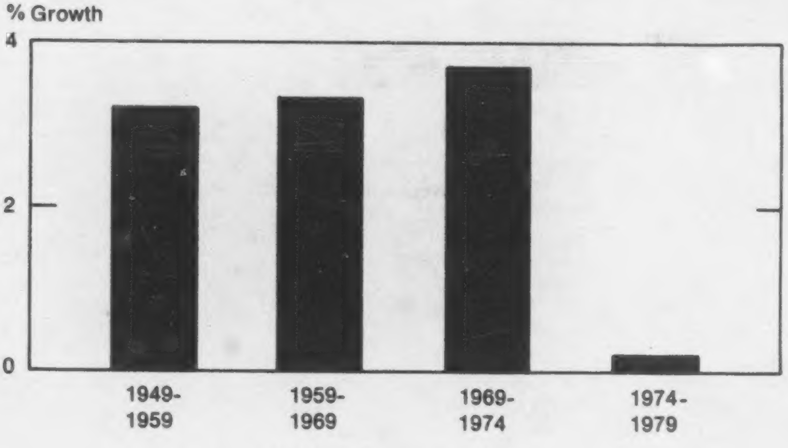


THE U.S. SHARE OF MAJOR COUNTRIES* R & D SPENDING IS DROPPING SHARPLY



* U.S., France, Germany, United Kingdom, and Japan.

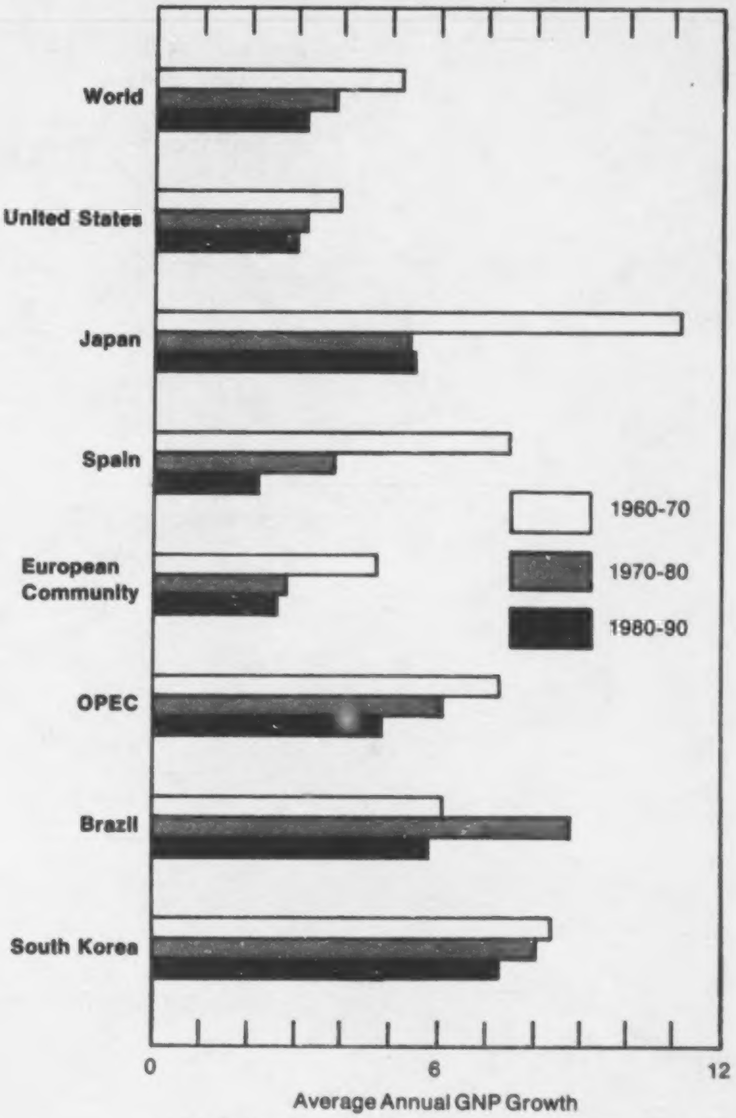
UNTIL THE MID-1970s THE U.S CAPITAL/LABOR RATIO SLOWLY INCREASED, BUT SINCE THEN IT HAS BEEN DECLINING DRAMATICALLY



Capital/labor ratio growth

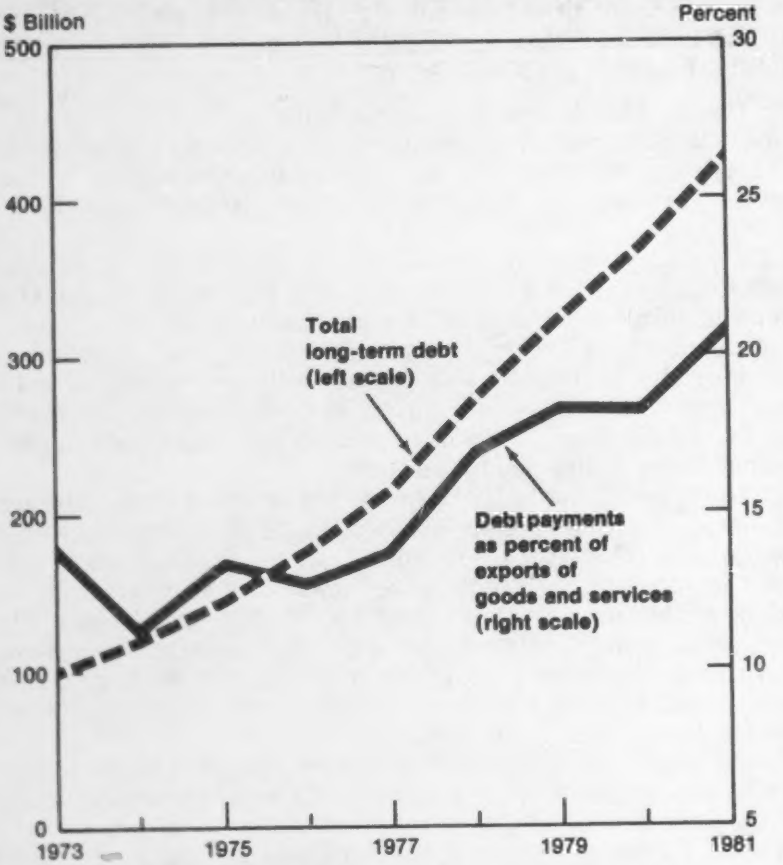
PROBLEMS FOR THE FUTURE

WORLD ECONOMIC GROWTH SLOWED IN THE LAST DECADE AND IS EXPECTED TO SLOW FURTHER IN THE 1980s



- As average growth slows again in the 1980s, competition for world markets will intensify.

NON-OIL LDCs LONG-TERM DEBT AND DEBT PAYMENTS ARE CONTINING TO RISE



- Exports from LDCs need to rise to meet debt payments, but slowing world growth is making such increases difficult.

Chairman GIBBONS. Mr. Piper, you may proceed.

STATEMENT OF W. STEPHEN PIPER, COORDINATOR, AEROSPACE TRADE POLICY, OFFICE OF THE U.S. TRADE REPRESENTATIVE; ACCOMPANIED BY WILLIAM KRIST, ACTING ASSISTANT U.S. TRADE REPRESENTATIVE FOR INDUSTRIAL TRADE POLICY AND ENERGY

Mr. PIPER. Thank you, Mr. Chairman.

America's competitive strength in world markets, as Under Secretary Olmer has just commented on, is exemplified by our high technology industries and, among them, importantly, by the aircraft industry.

With employment in excess of 1.2 million persons, American aerospace companies account for about 2 percent of our GNP and 11 percent of all U.S. exports of manufactured goods.

Export markets for civil aircraft, which now provide about a quarter of the industry's total sales, military and civil sales combined, have been developed over the decades by investment in R. & D., production technology and efficiencies, and outstanding customer service and product support.

But the question is not where we are or have been. The essential question is the future competitiveness of this high technology industry which constitutes a culmination in the manufacturing process of a number of high technology materials and systems.

In the brief time available this morning, I should like to underscore the important relationship between the aircraft industry and U.S. foreign trade and to identify certain factors regarding the international industry that will affect, most likely adversely, the competitive posture of our industry.

First, I might note that the aerospace industry is of major importance to the domestic U.S. economy. Its employment of 1.2 million persons provides nearly 6 percent of all U.S. manufacturing employment. Its sales last year, $53.3 billion, constituted 3 percent of sales of all manufacturing industries.

The second point is that the aerospace industry is of major importance to the U.S. balance of trade. Exports last year totaled $15.5 billion, 85 percent of which were civil products,—$13.2 billion in civil exports last year. Imports totaled $3.5 billion so the net contribution of the industry to our trade balance was $12 billion. Total exports of manufactured goods were $144 billion, 10.8 percent of this total, aerospace; 9.2 percent of this total, civil aerospace products.

The third point to be made about our industry, I think, is that export sales are critical to its viability. Over the past 5 years, 67 percent of civil transport aircraft sales in the United States have been for export; 46 percent of civil helicopter sales and 28 percent of general aviation aircraft sales have been for export.

Mr. Chairman, this is an export-oriented industry. Civil export sales of complete aircraft last year totaled $8.2 billion, 63 percent of total sales. On top of which, engines sold separately from aircraft were exported to the total value of $556 million. And less well-recognized, but most importantly, exports of parts for civil aircraft and engines last year totaled $4.4 billion.

I mention these sectors of the industry explicitly because it is important to recognize that we are talking of a nationwide industry, not just of a handful of large firms. Indeed, one of our larger companies, our largest, Boeing, last year paid more than $4 billion to nearly 3,000 suppliers, more than 2,100 of which are classified as small businesses.

The preeminence of America's aircraft industry is well-known. But it must not be taken for granted. There are two forces at work to erode the relative position of our industry and indeed, to threaten a reduction in actual sales volumes.

The first force is the foreign government focus on and targeting of this high technology industry for development assistance as a major element of their economic industrial policies. Foreign governments are willing to provide the capital and to bear the risk for launching new civil aircraft models.

The second force is that increasingly U.S. firms are finding it necessary or desirable to develop international partnerships in order to raise the substantial sums required for launching a new program, or to improve their market presence in order to reduce the economic risks inherent in new programs.

As a consequence, many of our secondary firms are finding that business that they used to be doing for U.S. primary manufacturers is now going to foreign suppliers.

I might note that the Europeans now have established a successful program in the Airbus. It is the 10th European effort to develop a commercial jet transport, and the first successful one. Airbus is now second to Boeing, having overtaken Douglas and Lockheed in sales in recent years.

MITI has selected civil aircraft as one of the high technology industries whose development it will fund and foster in Japan.

The launching costs for new programs is a major restraint on investment by private companies. Common estimates today are that it requires $1.5 to $2 billion risk capital investment to launch a new commerical transport aircraft program, and that is without engines. Another billion dollars is required for engine development. In a different sector, the 30- to 50-seat commuter aircraft, the common figure for the risk capital required is $400 to $500 million.

To document one aspect of the increased foreign presence in this market, I might note that of the seven models of 30- to 50-seat commuter aircraft announced for entry into service in the 1982 to 1986 time period only one and a half are of U.S. manufacture. Fairchild/Swearingen in partnership with Saab of Sweden and the newly established Commuter Aircraft Corp., of Youngstown, Ohio, will be competing in this time frame with the Shorts 360 from Northern Ireland; the Brasilia from Embraer Brazil; the Dash 8 of deHavilland of Canada; the CASA/Nurtanio 235, being jointly developed by Spanish and Indonesian companies; and finally the ATR-42, a joint effort of Aeritalia and Aerospatiale.

In business jets, our companies have been facing, shall we say, traditional competition from the French Falcon and the British HS-125, but now they also face competition from the Canadian Challenger, the Mitsubishi Diamond and the Israeli Westwind.

Brazil and Indonesia are developing general aviation industries.

Let me conclude by noting for the committee's attention six of the major trade problems that we face. First, foreign government funding of specific aircraft program development, launching and marketing. Second, foreign government subsidization of purchase financing. Third, local content pressures, especially as aircraft sales come in such large dollar chunks, foreign governments and companies want some piece of the action. The fourth problem is the occasional politicization of sales efforts. Fifth, import restrictions by developing countries that want to foster the development of an indigenous industry. And sixth, something that we can do more about directly, U.S. export controls that sometimes work not only to provide sales to foreign firms but, indeed, to establish the viability of our foreign competitors.

We have sought to address some of these problems by establishing in the GATT Agreement on Trade in Civil Aircraft an internationally agreed framework governing the conduct of trade in civil aircraft. Restrictions on governmental intervention and procurement decisions and on funding for the development of aircraft programs are a part of that agreement. That agreement needs and merits the close cooperation of Government and industry in this country in overseeing its operation.

As regards purchase financing, aircraft sales can and should be financed at commercial market rates of interest with appropriate loan maturities. Government funds, whether from our Export-Import Bank, or from foreign governments, are not required, although in particular instances government guarantees may be necessary.

Mr. Chairman, that concludes this brief introduction to the competitive position of America's aircraft industry and some of the trade problems that it is facing.

[The prepared statement follows:]

STATEMENT OF DR. W. STEPHEN PIPER, COORDINATOR, AEROSPACE TRADE POLICY, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Mr. Chairman, I appreciate the opportunity to appear before the Committee this morning to discuss the international competitive situation facing the U.S. aerospace industry.

America's competitive strength in world markets is exemplified by our high technology industries, and among them importantly by the aircraft industry. With employment in excess of 1.2 million persons, America's aerospace companies account for about 2 percent of GNP and 11 percent of all U.S. exports of manufactured goods. Export markets for civil aircraft, which now provide about a quarter of the industry's total (i.e., civil and military) sales, have been developed over decades by investment in R. & D., production technology and efficiencies, and outstanding customer service and product support. We can indeed be proud of the position our industry enjoys today in the world market as a consequence of its investment, initiative, and technological capability.

But the question is not where we are or have been—the essential question is the future competitiveness of this high technology industry, which essentially represents a culmination or integration in the manufacturing process of a number of high technology materials, processes, and systems. In the brief time available this morning, I should like, first, to underscore the important relationship between the aircraft industry and U.S. foreign trade, and second, to identify certain factors regarding the international industry that will affect, most likely adversely, the competitive posture of the American industry.

CHARACTERISTICS OF THE INDUSTRY

The first point to be made is that the aerospace industry is of major importance to the domestic U.S. economy:

With employment exceeding 1.2 million persons, it provides nearly 6 percent of all U.S. manufacturing employment and 9.7 percent of U.S. durable goods manufacturing employment.

In 1980, with sales of $53.3 billion, it accounted for 2 percent of GNP, 3 percent of all manufacturing sales, and 5.9 percent of durable goods sales.

Of course, one must recognize that the U.S. aerospace industry encompasses missiles, spacecraft, and civil and military products other than just aircraft, although indeed aircraft (together with engines and parts, components, etc.) accounts for 54 percent of the industry's volume.

In 1980 sales of civil aircraft, engines, and parts totaled $19.1 billion, or 66 percent of total sales of aircraft, engines, and parts.

The second point is that the aerospace industry is of major importance to America's balance of trade:

In 1980 exports were valued at $15.5 billion, of which $13.2 billion (85 percent) were civil products.

With 1980 imports of aerospace products valued at $3.5 billion, the net contribution to the U.S. trade balance was $12 billion.

In 1980, total U.S. exports of manufactured goods were valued at $144 billion—of this total, aerospace exports accounted for 10.8 percent, and civil aerospace exports for 9.2 percent.

The third point to be made is that export sales are critical to the viability of the U.S. civil aircraft industry:

Over the past five years: 67 percent of civil transport aircraft sales have been for export; 46 percent of civil helicopter sales have been for export; 28 percent of general aviation aircraft sales have been for export.

This is an export-oriented industry: civil export sales of complete aircraft last year totaled $8.2 billion or 63 percent of total sales of complete aircraft. In addition, exports of civil aircraft engines (other than engines installed on aircraft exports) were valued at $556 million, and exports of parts for civil aircraft and engines at $4.4 billion.

These sectors of the industry deserve explicit mention, because it is important to recognize that we are talking of a nationwide industry, not just a handful of large companies. To illustrate the diversity of the industry, one might note that Boeing reports that it alone paid more than $4 billion in 1980 to 2,992 suppliers in support of its civil transport aircraft programs, of which $606 million went directly to 2,184 small businesses.

TRENDS AND PROBLEMS

The pre-eminence of America's aircraft industry is well-known, but it must not be taken for granted. Two forces are at work to erode the relative position of our industry, and indeed to threaten a reduction in actual sales volumes. The first force is the targeting by foreign governments of this high technology industry for development assistance as a major element of their economic/industrial policies. Foreign governments are willing to provide the capital for and bear the substantial risks in launching new civil aircraft models. The second force is that, increasingly, U.S. firms are finding it necessary or desirable to develop international partnerships in order to raise the significant sums required for launching a new program, or to improve their market presence, in order to reduce the economic risks inherent in new programs. In this regard, one might note that:

Airbus, the tenth European jet transport program, and the first to establish long-term viability in the world market, is now second to Boeing in current sales, having overtaken Douglas and Lockheed in recent years.

In 1980, the French Government, which has a 37.9 percent share of the Airbus program, provided funding of 173 million French francs ($41 million) for product improvements in the Airbus A300 and 450 million French francs ($107 million) for continuing development of the A310, which was a portion of the total French share of A310 development projected to be 2.3 billion French francs ($548 million).

Last December, the German Government's guaranteed funding for the Airbus program was increased by DM 850 million ($396 million) to an eventual total of DM 2.85 billion ($1.3 billion).

In 1980, the French Government pledged 100 million French francs ($24 million) to support project studies for a new generation 150-seat aircraft.

In the 1971–1979 period, the French Government provided funding of 1.985 billion French francs ($473 million) to assist SNECMA's development of the 50–50 GE-SNECMA engine project, designated the CFM–56. Funding in 1980 was another 318 million French francs ($76 million).

MITI has selected civil aircraft as one of the high technology industries whose development it will fund and foster in the 1980s in Japan.

In 1973, MITI organized the Civil Transport Development Corporation (CTDC)—a consortium on Fuji Heavy Industries, Kawasaki Heavy Industries, and Mitsubishi Heavy Industries—to undertake the Japanese share (17 percent of the fuselage) of the Boeing 767. In fiscal 1981 alone, MITI provided 2,040 million yen ($9.9 million) to pay for half the sum required by CTDC to develop subassemblies for the 767.

Also in fiscal 1981, MITI provided 4,722 million yen ($22.8 million) to cover two-thirds of Japan's share of the development costs of the RJ-500, a new design 25,000-27,000 pound thrust engine being developed jointly with Rolls-Royce for new 150-seat aircraft.

The Canadian Government has provided $450 million (Canadian) in guarantees to permit deHavilland to raise the funds required to develop the new 30-seat Dash 8 commuter aircraft, scheduled for first deliveries in 1984, and a grant of $50 million (Canadian) to Pratt & Whitney of Canada to aid in its development of a new turboprop engine, the PW100, for this aircraft. (The PW100 is a direct competitor with General Electric's forthcoming CT-7.)

The Dutch Government has recently indicated its willingness to commit 1,700 million guilders ($666 million) for design and development of the MDF 100 150-seat aircraft, proposed in partnership with McDonnell Douglas.

British Aerospace (which holds a 20 percent share of Airbus) has said publicly that it wishes to have a major part of the proposed new 150-seat Airbus A320, but that it must have government aid to be able to do so.

The launching costs for new programs are major restraints on investment by private companies: $1.5-2.0 billion for a jet transport, plus another $1 billion for development of the engines; $300-500 million for a 30-50 seat commuter aircraft and many years will be required before the investment can be recouped, if the program is successful.

U.S. companies are going overseas to find partners to assist in sharing the development costs and risks:

The Boeing 767 has major subassemblies being provided by the Italian and Japanese industries, including components involving high technology manufacture.

McDonnell Douglas has announced a 50-50 partnership with Fokker of the Netherlands for design and development of a new generation 150-seat aircraft, designated the MDF100.

Fairchild/Swearingen has a 50-50 partnership with Saab/Scania of Sweden for design and development of a new 34-seat commuter turboprop, designated the SF-340.

Pratt & Whitney's new 37,000 pound engine, the PW2037, is being developed in partnership with MTU of Germany (11 percent share) and Fiat of Italy (4 percent share).

The CFM-56 family of jet engines, adopted for the Boeing 737-300 and for re-engining of DC-8 Series 60 and KC-135 aircraft, is the product of 50-50 collaboration between General Electric and France's leading engine manufacturer, SNECMA.

To document one aspect of the increased foreign presence in one sector of the industry, of seven models of 30-50 seat commuter aircraft announced for entry into service in the 1982-1986 time period, only one and a half are of U.S. manufacture. The Saab/Fairchild SF340 and the CAC-100, planned by the newly established Commuter Aircraft Corporation of Youngstown, Ohio, will be competing with the Shorts 360 (from Northern Ireland), the Embraer Brasilia (Brazil), the deHavilland Dash 8 (Canada), the CASA/Nurtanio CN235 (Spain and Indonesia), and the Aeritalia/Aerospatiale ATR42 (France and Italy).

The Canadians, Israelis, the Japanese are joining British, French, and American companies in the business jet sector, with the recent introduction of the Canadian Challenger, the Israel Aircraft Industries Westwind, and the Mitsubishi Diamond. Brazil and Indonesia are developing substantial general aviation aircraft manufacturing industries.

We welcome the foreign competition. Competition stimulates market development, and offers added sales opportunities for our component suppliers. Free trade, based on mutually acceptable trading relations, is the keystone of our trade policy. We have sought to address the specific trade problems encountered by the U.S. civil aircraft industry by establishing, in the GATT Agreement on Trade in Civil Aircraft, an internationally agreed framework governing the conduct of trade in civil aircraft. Restrictions on governmental intervention in procurement decisions and on funding for the development of aircraft programs are a part of the Agreement. The Agreement needs and merits the close cooperation of Government and industry in overseeing its operation, so as to ensure to the maximum extent possible the realization by U.S. industry and labor of the benefits of that agreement.

As regards purchase-financing, addressed also in yesterday's panel on export financing, aircraft sales can and should be financed at commercial market rates of interest and appropriate loan maturities. Governmental funds—whether from our Export-Import Bank or foreign governments—are not required, although in particular instances government guarantees may be necessary.

Mr. Chairman, I should like to conclude with a short listing for the Committee's consideration of the major trade problems faced by the U.S. civil aircraft industry:

1. Foreign government funding of specific aircraft programs and the impact on the competitive position of private U.S. companies which have to raise risk capital on their own, at market rates of interest.
2. Foreign government subsidization of purchase-financing, which can only be matched on a limited basis by Eximbank in foreign markets, and which provides an artificial competitive advantage to foreign manufacturers for sales to the United States.
3. Pressures to have some local content, to offset, in part, the sizable payments impact of aircraft purchases.
4. Occasional politicization of sales efforts.
5. Import restrictions by developing countries that seek to foster the development of an indigenous industry.
6. U.S. export controls that sometimes have the effect not only of providing foreign firms with additional sales, but indeed of establishing the viability of our foreign competitors on a long-term basis.

Chairman **Gibbons**. Thank you, Mr. Piper.

Before we go to Mr. Olmer, let me talk with you a little while, Mr. Piper, because I am not an expert in that area, but I have an interest in it that goes back a long way. I first really became aware of the tremendous potential for competitiveness when I rode on an Airbus one time and had the pilot tell me it was the best airplane he had ever flown. A few years ago I was in Japan with another committee, not the Trade Subcommittee, and I was looking over Japanese aircraft, military aircraft. They were excellent-looking aircraft; a lot of them built off U.S. licenses. They were well built, and obviously the Japanese had the technology, having built the planes.

I most recently discovered that there is not much worry about the Japanese buying the 767. They are going to manufacture a large portion of it, so we don't have to worry about export financing of that aircraft as far as Japan is concerned. I imagine since they are going to manufacture a large portion of it they wouldn't be competing with it immediately, but somewhere down the road they will. So I am very interested in what you have to say about the aircraft industry.

In Brazil, we talked to the Brazilians about their aircraft industry. They seem to be subsidizing the dickens out of it, and they give us trouble about import licenses for our own aircraft down there. And so while we enjoy a lucrative aircraft market right now, I agree with you, we certainly can't rest on our laurels. We have our work cut out for us.

How in the world, though, do we take an industry in which many people are now gaining the technology, an industry that is so labor intensive, and still maintain our competitive position? How do you feel that we are going to do that through the 1980's and 1990's?

Mr. **Piper**. Mr. Chairman, if I might note that we do have a strong competitive position in Japan, as you point out, with the 767, some 15 or 17 percent of the fuselage of which is being produced by a government-organized consortium of Japanese companies: Mitsubishu Heavy Industries, Fuji Heavy Industries, and

Kawasaki Heavy Industries. However, the Airbus is also selling into Japan, and we have had, unfortunately, last spring representations, very strong representations by the French Government, to the effect that they wanted the Japanese Government to put pressure on Toa Domestic Airlines not to delay or to cancel its orders of Airbus. That is some of the politicization to which I was referring. One of the things we are going to have to do, in answer to your question, is to pursue vigorously objection to foreign government intervention in market selection.

There is also a funding problem. It is difficult for American companies to raise the $1.5 to $2 billion required to launch a program. We see this in the McDonnell Douglas announcement to join with Fokker Aircraft in what is presently a 50-50 project—there may be a third partner—to develop a new generation, 150-seat aircraft program. The Fokker share is being supported by the Dutch Government, so U.S. companies can get benefits from foreign governments in cooperative programs. That will sap the production base and, indeed, the national security base available in this country.

One of the most difficult areas that the leadership at NASA is grappling with, and the leadership in the industry is grappling with, is how does one provide the funding to validate new concepts. NASA and the Army have funded the development of an experimental aircraft by Bell Helicopter, the tilt rotor. How does one validate that as a commercial concept? The risk there as a new concept in aircraft is too great for a private company to fund.

We have yet to determine how one would approve the use of composite structures in primary load-bearing components of an aircraft. We have composites in secondary structures. In fact, the Italians are providing some of that for the Boeing 767, composite structure flaps. But in the primary structures on the aircraft, these take new design techniques that will require an innovative approach by the airworthiness authorities of the Federal Aviation Administration to be able to certificate that, yes, indeed, this is quality, and safe, because it is different from present or traditional engineering practices. Fly by wire, active controls, these are different concepts, and it is going to require a change in engineering approach to validate the airworthiness of them.

There will be—there may need to be—a very heavy Government role in this. We don't find some of our Europeans or Japanese competitors slacking from the willingness to take up this risk. The Japanese have explained to me that aircraft manufacture is a very risky business, and that the Government must bear the economic risk, about 75 percent of all the costs of their programs through to the point of type certification at which time they will turn it over to private companies.

Strong action against subsidized purchase financing can help us, because if foreign companies come into this market with subsidized financing, then our companies will find that they are at a competitive disadvantage. And our companies need sales and profits to raise the capital to invest in new technology and new programs.

Chairman **Gibbons**. Do we have a plan for staying ahead?

Mr. **Piper**. The industry is aggressive and competitive, and I think the individual companies in their own councils are taking what steps they deem to be most appropriate to maintain their position in the market. To some extent this has the consequence of seeking foreign partnerships. One has that in the McDonnell Douglas/Fokker program; one has that in the General Electric/SNECMA program; one has that even with Pratt & Whitney, the dominant engine manufacturer. Their new engines will have 11 percent German content and 4 percent Italian.

Chairman GIBBONS. Are any of our foreign competitors violating any of the rules of GATT or the MTN aircraft agreement?

Mr. PIPER. Mr. Chairman, we had occasion last week to share, with some of our trading partners in the GATT Committee on Trade in Civil Aircraft, once again, our view that subsidized financing, export credits at rates of interest below market rates, is contrary to the provisions of the agreement on subsidies and countervailing measures and is a practice that we wish actively to dissuade. We are working, not in filing in this instance a formal GATT complaint against them, but we have raised it in the GATT for discussion and are seeking a negotiated solution. Ambassador Brock also referred to this in his statement last Wednesday before this committee in saying that, while we welcomed free competition in the United States, we were prepared to act firmly to use such available remedies as are appropriate to insure that goods are fairly traded.

Chairman GIBBONS. Mr. Olmer, did you want to say something?

Mr. OLMER. That is a very comprehensive response, Mr. Chairman. But I think that some of the essentials that have not been addressed within its context is the issue before the committee today, and that is competitiveness. The competitiveness issue is met by greater productivity on the part of the American concern. That productivity is dependent upon a number of things for which American industry, and perhaps most especially the aerospace industry, has been well known in the past; and that is the increasing productivity, healthy investment, and research and development in order to build a better mousetrap at a better price. I think if you look around the world at countries which are getting competitive with us, they have experienced increasing wage rates that are tracking rather symmetrically with our own while our productivity advantage in that sector has been increasing. We have got to do things internally so that we make it possible for that greater productivity in the aerospace industry to continue, it seems to me.

Chairman GIBBONS. Mr. Schulze?

Mr. SCHULZE. Thank you, Mr. Chairman.

Mr. Piper, what weighs more in sales of aircraft and avionics, technology or price?

Mr. PIPER. It is hard to give a quick answer to that. Technology is critical because with the technology you usually get more benefit with respect to operating costs, and it becomes a question of what does it cost to operate the aircraft over its expected useful life. The chairman referred to the Airbus as a very fine aircraft. It is. It has a number of systems on it that are identical to those on U.S. aircraft. The Honeywell avionics equipment is identical between the 767 of Boeing and A-310 of Airbus. There is not much of a technology difference between these aircraft, as the new generations come out.

Price is an important factor, and also financing, perhaps even more so because at today's market rates of interest, financing represents such a large portion of the life cycle cost of the product.

Mr. SCHULZE. The reason I ask the question, it seems to me if we had retained that technological edge, which I think we are rapidly losing, I don't think price would be as important a factor as it is becoming. And I guess from an overall view of our own manufacturers, domestic manufacturers have grown complacent, or is the rapid catchup in technology due to other factors?

Mr. PIPER. Referring to Mr. Olmer's response a few moments ago, I think it is difficult to capture, or to hold control of technology. We don't have a monopoly on it. What one needs to do is to sell today's technology to get the money to go into new technology.

Mr. SCHULZE. We have historically had such a large lead, and that has narrowed. It seems to me we started with a great advantage, and we somehow should have tried to keep that advantage as we went along.

I guess my question is, was that closing of the technological gap inevitable, or were there things we could and should have done or our domestic producers could and should have done to retain that technological edge?

Mr. PIPER. I think to some extent it is inevitable. In other cases I think that it may be that programs of this Government have aided in the technology transfer. In particular, one can look at the case of Japan, which is purchasing F-15-J's for I believe about $45 million a copy made in Nagoya, rather than buying them for $25 million a copy made in St. Louis.

The technology transfer in military aircraft does have an impact on what that industry is able to do in Japan in the civil sector.

[Additional information follows:]

OFFICE OF THE U.S. TRADE REPRESENTATIVE,
EXECUTIVE OFFICE OF THE PRESIDENT,
Washington, D.C., November 20, 1981.

Hon. SAM GIBBONS,
House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: During the November 3 hearings on export competitiveness before your subcommittee, I presented some information on MITI's focus on developing Japan's civil aircraft manufacturing industry. Subsequently the following press report has come to my attention; it updates that contained in my testimony, and is forwarded for your information.

The September 9 issue of JPE Aviation Report-Weekly, published in Tokyo in the English language, contains the following report:

"The Ministry of International Trade and Industry (MITI) has earmarked ¥1,502 million in its fiscal year 1982 budget request for the development of the Y-XX 150-seat-class commercial transport starting in the current fiscal year. The fiscal year 1981 budget has set aside ¥353 million for the Y-XX program.

"With the MITI budget request in mind, the Japanese aircraft industry may call a top-level meeting in September to determine how to proceed with selection of a foreign partner in the Y-XX program after the McDonnell Douglas Corporation/Fokker group and Boeing Company proposed to the Japanese in August to take part in development of specific aircraft corresponding to the Y-XX. Prior to the top-level session, working-level representatives of Civil Transport Development Corporation, Mitsubishi Heavy Industries Ltd., Kawasaki Heavy Industries Ltd., and Fuji Heavy Industires Ltd. may meet to exchange views on the McDonnell Douglas-Fokker MDF-100 and the Boeing 7-7 proposals.

"Although industry sources term both of the proposals basically acceptable, the industry will consider which is more feasible and more favorable to the Japanese.

"The MITI budget request also calls for ¥403 million (¥2,043 million in fiscal year 1981) for the Japan-Boeing-Italy Boeing 767 (Y-X) program and ¥5,402 million (¥4,722 million) for the Japan/Rolls-Royce development of the RJ500 (XJB) aero engine featuring low noise, low pollution, and enhanced fuel efficiency. The B-767 program is a shift to the production stage from the current development phase in fiscal year 1982."

Japan has not yet announced a selection of a partner for the Y-XX, although there have been reports that such a decision and announcement can be expected this month.

Respectfully,

W. STEPHEN PIPER,
Coordinator, Aerospace Trade Policy.

Mr. SCHULZE. Thank you, Mr. Piper.

Secretary Olmer, I wonder if you would just spend a minute and tell me what the Commerce Department's role is on the Trade Policy Committee and how you interrelate with the USTR?

Mr. OLMER. Secretary Baldrige is the Vice Chairman of the Trade Policy Committee, which as you know, is chaired by Ambassador Brock. The various working groups which are subordinate to the TPC are composed of a consortium of executive branch agencies having related responsibilities.

The Commerce Department's almost exclusive responsibility relates to commerce and trade, and certainly the International Trade Administration, which I head, has no other functions. As a consequence, we provide, I like to think, a large amount of staff support for the workings of the TPC and, indeed, for the workings of the USTR through the sizable staff that we have that is engaged in both statistical data collection, as well as analysis of the data which is collected.

I think there is a harmonious, and I like to believe productive, working relationship between the two groups. That is to say, USTR's staff of roughly 115 professionals, and the staffs of the ITA and the Office of Economic Affairs within the Commerce Department of several times that number. It is always a question whether people at the top delude themselves into thinking that work below is being conducted in a harmonious and not acrimonious fashion.

I think there is a healthy competition at many junctures, but that by and large the net result is favorable to the U.S. interest in the area of formulation and implementation of trade policy.

Mr. SCHULZE. You seem to think that it is working well and is a pretty good relationship and a pretty good setup then?

Mr. OLMER. Yes sir, I do.

Mr. SCHULZE. Thank you very much.

Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Stark.

Mr. STARK. Thank you, Mr. Chairman, and thank you for letting me join you this morning.

Mr. Piper, are you aware that under present DISC law, military sales are excluded? In other words, somebody selling military hardware, doesn't qualify for DISC treatment? Are you aware of that?

Mr. PIPER. No, sir.

Mr. STARK. It is especially important that you be aware of that because it could be known as the Stark amendment. But it was passed several years ago in this committee on the basis that a company selling military goods doesn't really sell them. It is done by the State Department or our Department of Defense and they are going to sell the tanks or hardware. Thus, I hope that we are keeping a close eye on it.

For instance, you mentioned civilian airplanes just earlier. It could very well be that if those civilian airplanes end up in a military use that the company selling them would have to exclude the profits of those particular items from DISC treatment, and I hope that would go a little bit of the way toward showing that we are going to conform with the GATT rules. It was just a chink in the armor, but it was as good as we could do. I would certainly hope we could keep an eye on it and see that at least that much of the law is enforced.

Mr. **Piper**. We will make note of that, sir. The focus of our activity in trade has been with the civil side and the civil products. The Defense Department has its own establishment for dealing with military aircraft, military aerospace trade matters.

Mr. **Stark**. Secretary Olmer, I am concerned. There is a tremendous amount of semiconductor activity, as you know, in northern California. We have been watching the Japanese particularly match our production techniques in that field, and there are reports that in 64-K RAMS they may be the production leaders in the world before the end of the year.

In what I think is a proper fashion, the semiconductor industry has responded to that challenge by proposing we get beyond the 4.2-percent harmonization and go to a zero tariff level and provide a general agreement on national treatment of semiconductors between Japan and the United States in terms of investment, customs, research, those sorts of things.

Some of these ideas were in Chairman Jones' bill—H.R. 4346. I just wonder what your position is on further trade agreements in the semiconductor field, and as a separate item, do you see any chance of getting the Common Market to lower their 17-percent tariff, which seems quite high, on semiconductors?

Mr. **Olmer**. Mr. Stark, the first part of your question suggested concern for the movement of the semiconductor industry to California?

Mr. **Stark**. No, no. I am concerned about Japanese competition. The semiconductor industry in California suggests we go to zero tariffs and have a national treatment of semiconductors, so you could have any amount of investment and research back and forth. Most of that is covered in Jim Jones' bill. I wondered what your feeling was about that move?

Mr. **Olmer**. I view the achievement of the accelerated reduction in the semniconductor tariff between the United States and Japan as a modest one, achieved after much expenditure of effort by our office, the U.S. Trade Representative, and the Japanese Government. I said modest because even by what I think are optimistic estimates of the U.S. industry, there will be roughly $17 million in value accounted for by that process.

I think more important is the signal that it represents; that is to say, bringing the Japanese to the table in the area of high technology and getting the focus of their attention on the fact that we want to liberalize trade in that area. I believe it is unrealistic to expect national treatment by Japan of U.S. high technology companies who want to invest in Japan. I think that for both what we like to refer to as cultural and structural differences between our two societies, it is unlikely that there will be more than tokenism in that area. I, therefore, think that you have every reason to be concerned about the level of Japanese investment in high technology coming into the United States, and the Japanese Government drive toward achieving technological preeminence, particularly in the area of semiconductors.

With respect to your question on getting the European Community to jointly agree with us, and perhaps the Japanese to go to zero tariff, or to at least reduce the 17 percent, I think it certainly is a worthwhile endeavor on our part. I am not optimistic about the chances for success, but perhaps that is because I don't like to leave high expectations unfulfilled. I think it is certainly worth the effort, but I would point out that the high tariffs have caused U.S. investment to occur in Europe in order to avoid that high tariff.

So we have a number of companies there which are producing semiconductors for sale in Europe so as to get some level of price competitiveness with indigenous companies. The consequences of that—one consequence of that—is that the leading edge of the state of the art does not flow from the United States to Europe. As a consequence, the Europeans are penalizing themselves, and I think that ought to be a strong inducement for them to reduce that tariff, if not to zero, to substantially lower than the current 17 percent.

Mr. **Stark**. Thank you.

One other question that deals a little bit with supply side economics, even politics. I don't mean this to be pejorative. I am looking for your assistance. No less a manufacturer with Republican credentials than David Packard has suggested that one of the grave problems facing our hi-tech and our semiconductor industry is the fact that Japan, for example, with half our population, is graduating twice the number of electrical engineers and twice the number of mathematicians with the sophisticated ability to deal in these hi-tech areas.

I am just wondering if the Commerce Department sees it as part of their program when the budget cut sessions come up, to point out in these sessions that cutting the budget funds for college education and for assisting engineers and technical people and cutting back on research funds, including our national laboratories in which much of the basic research gets done, is going to be very counterproductive.

They may know the cost of those programs, but do they know the value? Do they know that supply-side economics can't work with just money alone? You have to have the people to take that money and operate the equipment, and I hope that Commerce might see its role, even sub rosa as it were, to keep reminding people that our technical and scientifically trained people are the real crux of our ability to compete in the future. I hope you will be a strong voice for moderation in cuts in those areas.

Mr. **Olmer**. If I might say a word about the point you make, sir. I agree completely that we need to encourage in many different ways the training of more hard-sciences people to enable a faster return to competitiveness and greater productivity growth. I believe that recent trends in American universities do indicate that the number of engineers, in the hard sciences in particular, is increasing beyond expectations of just 2 or 3 years ago. While we are not soon to be faced, I don't think, with a glut of engineers, we are likely to have a situation that in 4 years is far different from the situation we confronted, or that the industry confronted, just a couple of years ago that caused it to label the shortage of electrical engineers as the single most serious problem confronting it.

However, I think it also needs pointing out that it is not only the availability of trained engineers that enabled Japan to state as a goal world dominance in production of the 64-K rapid access memory semiconductor. It is the fact that the leading companies in Japan don't earn any money, and that the government not only doesn't put them into bankruptcy, force them to close their doors, or otherwise treat them badly, but encourages it.

Mr. **Stark**. Like Lockheed, Chrysler, Pan Am, U.S. Steel, all the companies we subsidize in this committee? We do a pretty good job of that, to the tune of maybe $60 billion a year.

Mr. **Olmer**. I am not familiar with the subsidies going to all of those industries that you identified, but the Japanese at the very least have found a way to pick winners. It is the winners I am most worried about before this committee today.

One of Japan's winners is one of the world's largest high technology companies in a widening of product categories. It is not a particularly integrated company. It is one of the world's largest producers of semiconductors and produces both for its parent and for export. It earns less than 1 percent after taxes, and it does so with a work force that adheres to the principles of high quality and dedication and lifetime employment.

We are not able to do that here, and I am not urging that we legislate means to accomplish what can't be done except by a sort of cultural osmosis, but there are major differences that transcend merely the educational problems that we do face.

Mr. **Stark**. I hope you will come back when next we mark up a tax bill or hold testimony. We use our tax code much as Japan may use whatever its counterpart to your department is to promote things. Somebody pointed out in our last tax reduction where we reduced capital gains tax, and the capital gains exemption is an incentive to invest in productive areas, that had we only reduced capital gains for, say, real estate, factories, commercial equipment, productive equipment, and not for oriental rugs and jewels and collectibles and precious metals, we would have saved about $6 billion a year in the taxpayer's money.

In other words, we could have been far more selective and precise in the way we cut these taxes, as the method for encouraging the kinds of things that ought to help our industry. I think this committee would welcome input from the Commerce Department, from the trade representative, because when we do make these cuts, we often don't think of how we could perhaps be more efficient or offer additional incentives, as we did in the research and development investment tax credit.

I felt that we ought perhaps not to give them to Chucky Cheese and Pizzatime either, but to the extent that they probably do some research in computer programing, perhaps it is part of the game, but I think that was a modest step, and we would love to hear more from you.

Mr. **Olmer**. I would like to introduce one other thought at this time, Congressman; that is, in the field that you selected, semiconductors, there have been 19 breakthrough inventions since the invention of the transistor, which was the first. Of the 19, 18 were American, and one was West German.

I can't look at statistics like that and think otherwise than that maybe it doesn't hurt to provide a tax credit to the Pizza Hut, because perhaps diversity is one of our great strengths that we ought to encourage. We are not so bad off, and we need to recognize that, and build on the fact that we still are the most productive nation in the world, including in semiconductors and other high technology areas.

Mr. **Stark**. Thank you, Mr. Chairman. Thank you.

Chairman **Gibbons**. Thank you, Mr. Stark, for an interesting line of questioning.

Mr. Olmer, we have got a tough job ahead of us. When I say "we" I am not just talking about the Government; I am talking about American industry, and I have suggested here that perhaps we need a Government plan maybe for aircraft, and Mr. Piper has said that the industry has one. I don't know which is the best way to follow.

What is the belief of the administration as to what we should do to improve our competitive edge? Just repeat for me, if you will, what you think we ought to do to improve our edge in industrial competitiveness.

Mr. **Olmer**. I think that the Congress has taken a giant step in the direction of providing the environment that the administration believes is necessary to a return to competitive strength, and that is in the tax provisions that were enacted a couple of months ago.

Second, we do believe that the various industries that have not been competitive in part have not been so because of overregulation, and there is, as you well know, an effort to deregulate, particularly in the areas that we think are onerous or burdensome at the least.

Most importantly, however, it is the industries themselves which have to recognize that which needs to be done, and in part that requires a basic alteration of outlook, an outlook that is not wedded to the present but it is wedded to 5 and 10 years down the road, an outlook that does not look merely at short-term profits, but at long-term opportunities.

If industry sees that the Government recognized that it cannot plan 5 and 10 years out when it is worried about the course of Government intervention in its affairs, if those kinds of concerns are laid aside, then I think the opportunity will be more clearly seen and taken advantage of. It is an immense question that you have asked, Mr. Chairman, and that is obviously an inadequate response, but in outline form it is what I think needs to be done.

Mr. **Krist**. Mr. Chairman, I wonder if I could add two other items to that list of things that we should do. One of them would be to continue to eliminate the disincentives, the barriers our Government has imposed on U.S. industry in competing. These have been mentioned before in these hearings, items such as the

Foreign Corrupt Practices Act and the antitrust and banking prohibitions that would be dealt with in the export trading company legislation.

I would also add to that list the critical need to keep working on the foreign distortions. One of the particular problems that we run into in some of our very highly competitive industries is that they are heavily impeded in competing in developed country markets, and then they face heavily subsidized competition through export credits in third country markets. In essence, they get faced with a double whammy, and we need to deal with that competitive distortion too.

Chairman GIBBONS. Are our laws, our trade laws, sufficient to help us deal with discriminatory anticompetitive-type practices, or do we need to strengthen or improve them?

Mr. OLMER. As you well know, Mr. Chairman, it is our responsibility in the Commerce Department to administer the antidumping and countervailing duty laws, and I have that great responsibility and privilege. I look at those laws and can only conclude that the drafters must truly have had a great deal of faith in the kinds of people we could hire to interpret and carry out the laws.

They are immensely complicated. They are burdensome in and of themselves. I know of no better answer, I think, than a good deal of finetuning should be done, and there is a dynamic to the process of reviewing the laws and proposing changes to them. We are presently in the process of looking at the antidumping laws.

In my view, speaking as someone who came to the Government 9 months ago from the private sector, our view in the private sector in the high technology area was that our trade laws were inadequate because they were, generally speaking, too little and too late. Now that I have been in the Government and have tried mightily to deal with those laws in as fair, equitable, and efficient a manner as I can, I have a sense that that judgment was not too far off. But I know of no better way in our kind of society to deal with the problems of both international relations and domestic injury or alleged domestic injury.

Chairman GIBBONS. Is anybody in our Government on a systematic basis in the administrative branch charged with diagnosing the problems in these laws or making suggested improvements? What about it at USTR?

Mr. KRIST. We are going to be looking at import relief laws, to take a look and see how that is working. We do systematically review all the laws; most of the work is done on this in our General Counsel's office. On the import relief laws, we will be taking a look at it in light of the recent GAO report.

Chairman GIBBONS. What kind of input are we seeking from the user sector on this law to keep up with the needs as the user sector sees them?

Mr. OLMER. We have an industry committee advisory structure to work with us on one aspect, to review the relief provisions in our trade law, on our body of trade law, and to give us their judgment as to their adequacy or shortcomings. We are involved in, I would say, a disciplined, repetitive effort to look at the laws in their application, and to propose changes. We will be making changes shortly, I believe, in the area of antidumping and countervailing duty, based upon experience since the most recent changes were enacted.

I know, Mr. Chairman, of no better way than this gradual process of iteration based upon enactment and experience in consultation with the private sector.

Chairman GIBBONS. During the MTN we seem to have had a very good rapport with the private sector. I realize that they were particularly interested in the MTN, because they were wondering how it was going to affect them. Has there been a dropoff in interest by the private sector in these laws?

Mr. OLMER. I would say quite to the contrary. We have, together with USTR, embarked on an ambitious program, some 17 difficult industry sectors comprised of over 500 business representatives in regular meetings, in the Commerce Department most of the time, to discuss a wide range of issues affecting all of those industry sectors. The adequacy of trade law is, I would imagine, not perhaps at the forefront of the priority list, but it is a matter for consideration, and it will continue to be so.

We have other advisory mechanisms at our disposal that are just beginning to get off the ground. One is the President's Export Council, which was sworn in about a month ago. There will be a subcommittee that deals with trade laws generally. You know one of the trade laws that we are very concerned with is the body of law that deals with export administration, and we have a group of people dedicated and superb in their expertise, who comment on that body of law and procedure. To a certain extent in that area we are actually empowered to make certain administrative changes to allay the disincentives to export.

In part, we will be required to submit proposals for legislative changes. We are doing so. So I think the answer, the short answer to your question, Mr. Chairman, is yes, we are meeting with the private sector. Yes, they are motivated.

There have been some changes in the advisory council membership structure, which I think is healthy. It is a new group of people, and they are motivated to increase exports and to eliminate disincentives and minimize burdensome regulations, and if anything, we are clearly not in the posture of having to spur them on. They are spurred on. They are self-motivated, I would have to say.

STATEMENT OF MICHAEL AHO, DIRECTOR, OFFICE OF FOREIGN ECONOMIC RESEARCH, DEPARTMENT OF LABOR

Mr. AHO. Mr. Chairman, I may also add that on the labor side, the labor sector advisory committee, through its steering group, meets monthly; in fact, this morning they are having their monthly meeting, and there has been no falloff in the activity there either.

Chairman GIBBONS. Let me ask you, is there any place in this government where people sit down and try to decide what are our educational needs for the future? Mr. Stark brought up the problem of engineers. I recently visited an engineering school. I found that the facilities were vastly overcrowded. The professors were not receiving as much money as their students were able to make the first year they got off the job. I read an article in the newspaper the other day where we are lacking the basic science-type teachers in our secondary schools. We can't maintain our technological lead on a hit-and-miss basis; we have got to have the trained people.

Do we ever sit down and talk about this in government at any particular point, or do any of you have any input in it? I realize we don't have the Department of Education or, soon to be, the Office of Education here, but do you all have any input in deciding what we are going to need in the future, as far as trained people to run our society, or do we care about that as a government?

Mr. OLMER. I know we care about it as a government, and I am familiar with studies which have been conducted in the past by the Government in the area of analyzing the kinds of skills essential to maintain a modern industrial base. I am also aware that the National Academy of Sciences and National Science Foundation do similar kinds of analyses in terms of the skills that are required. Beyond that, I am kind of lost, but I would be happy to look into it and advise you, Mr. Chairman.

Chairman GIBBONS. It appears to me, just as I sit here and think, that you are the Under Secretary of Commerce for International Trade, and it looks to me like someone should be soliciting your opinion as to what we really need in the way of trained personnel to carry out the kind of responsibilities that we have there. We obviously need people who are proficient in languages. We need people who are proficient not only in U.S. Government policy practices, we need people who are proficient in the policies and practices of foreign governments and of business. I don't know whether we are training those kinds of people.

I realized our tax laws were a powerful disincentive to training them. One of the things that appeared to me from my trip to South America was that most of the people that I met down there who were representing U.S. businesses were gray-haired. There were no more blonds or brunettes; they were all gray. They had been there a long time, and probably the only reason they hadn't come home is because they had been there a long time.

Mr. AHO. Mr. Chairman, the Bureau of Labor Statistics develops projections of employment by occupation which reflect the demand for various occupational skills. However, because the interaction between supply and demand in the market has a great effect on wages, it is very difficult to determine occupational supply for most occupations. We do have the Bureau's occupational employment projections for engineers and many other occupations and the Bureau's analysis of projected supply-demand conditions for engineers—and I would be happy to provide that information.

[Additional material received and retained in the Trade Subcommittee file "Occupational Projections and Training Data, 1980 Edition."]

Chairman GIBBONS. Good.

I just wonder. I don't believe in controlling education from a national level. I don't think the Congress ought to become the local school board, but it is just obvious to me that there are great needs out there that we are probably depending upon the marketplace too much to control. I am not sure whether we are meeting the need for educated people in some of these systems.

We seem to be training plenty of lawyers, and right now lots of doctors, and lots of ill-directed generalists in our higher education areas. I shouldn't say ill directed—with no direction in higher education. But I just wonder if government ever sat down and tried to figure out what we are going to need 15 or 20 years down the road to make sure we get some of those people through the schools now, undergraduate and graduate schools. Mr. Pease, would you like to inquire?

Mr. **Pease**. Thank you, Mr. Chairman.

I will just be brief. I have one general question, and that is whether the panel is really optimistic at all about our ability as a nation to be competitive in the international field in the years ahead.

I have seen statements from witnesses the last couple of days which expressed optimism, but the trend lines in the last 10 years are not very encouraging. I am wondering what it is, if anything, that is going to happen in the next 2 or 3 years that will occur that will change the basic pattern.

We have lost a lot of our electronics business. Certainly the automobile industry, in which I am interested, is not doing very well competitively these days. The semiconductor business has been a boom area for the United States, and what you read is that we are about to lose our edge in semiconductors. The Japanese are going to overtake us on that.

Are you optimistic? Can we be competitive industrially, and if so, why?

Mr. **Olmer**. Mr. Pease, I am cautiously and selectively optimistic—selectively meaning there are areas in certain industrial sectors that I think we now are and will remain competitive worldwide, although not without some reason for concern over present and anticipated developments. But I believe that the program which the administration has embarked upon to lay a foundation of encouragement for the private sector, and the private sector's desire and clear perception of what is happening in the world both will work together to assure the maintenance of that area of competitiveness.

Having said that, I think that there is reason for caution in a wide range of areas where we have already been put into a position of second best or third best, and the reason for concern is that in our society, improvements that are wrought from research and development and productivity by and large come from profits earned in the marketplace. That means that market share or success in business is essential to the maintenance of keeping your head above water, much less getting the rest of your body out of the water. Put another way, success breeds success.

There are certain industries—the one you mentioned, the automobile industry, is one where I think we have to exercise some prudence regarding our projections for the future. I am somewhat optimistic about its ability to come back. I am not familiar in any detail with the plans for the industry over the next several years, but a great deal has been done by this government, including the Congress, to lay that framework within which they can take advantage of these opportunities.

On the other hand, if the automobile industry builds new improvements based upon today's Japanese challenge, 5 years from now they will be worse off than they are today, because the Japanese are not standing still; they are going to field automobiles within the next couple of years that are going to make today's look second rate, and our industry I think recognizes that and is taking steps, accordingly, to compete. But I would have to say I am concerned.

Mr. **Pease**. Well, I appreciate that answer.

You said you were cautiously and selectively optimistic. If you were to look over the next 5, 6 or 7 years, in what field would you expect that the United States would be doing better than it is now in terms of international competition?

Mr. **Olmer**. The high technology area generally, I would say.

Mr. **Pease**. Including semiconductors?

Mr. **Olmer**. That is to say computers, semiconductors, telecommunications, aerospace, specialty steel, which is usually a surprise to most people who hear it, but we are doing pretty well in the specialties field area. We ought to be proud of it.

Mr. **Pease**. Do you think we will be doing better in those areas over the next 5 years in relation to what the Japanese are doing now?

Mr. **Olmer**. In some of those we are doing pretty well now, and I don't know that we need to do much better, as long as we maintain the kind of leadership that we are exhibiting in the field worldwide on computers. I think that is OK. In the field of telecommunications, we have lost perhaps 25 percent of our world market share in the last several years, and I think that is a very unhealthy sign. I would like to see that reversed. I think there is some potential that it will, and there is reason for believing that that industry is competitive and will remain competitive for a while.

Mr. **Pease**. If I hear you viewing cautious and selective optimism, I am not sure how that translates into our overall performance. In other words, I guess I hear you saying that some selective high technology areas you think will be doing better or at least as well as they are now in the next 5 or 6 years, but reasonably good performance on the part of a few selected areas. How does that translate into overall export performance?

Mr. **Olmer**. You run the risk when you lay out a list of omitting someone that deserves inclusion, and certainly I need to say that I didn't mean to exclude anyone that deserves to be included in those industries which are competitive, but memory prevents me from being comprehensive.

Certainly our apparel industry has done great works in the last several years to repair a situation which was noncompetitive just a couple of years ago. They are doing better, and I believe will continue to do better. In part that is due to properly directed Government help.

I believe that our priority must be the area of high technology, because so much else depends upon it. The industry that you pointed to, Mr. Pease, the semiconductor industry, is referred to oftentimes as the crude oil of the national industrial base. In part, that is to say that silicon may be the most pervasive product in modern industrial society. Nothing can be built without it. Automobiles and every motor vehicle will have a minimum of $100 of semiconductor content.

If we lost that capability, we will eventually lose our capability in other areas as well. Vertically integrated companies will have their own facilities for turning out component parts, and if we are not competitive in those high-technology component parts, they will use their own facilities from which to draw. So I guess I would put that at the top of my priority list in doing what is possible to encourage the maintenance of our technological supremacy.

Mr. **Pease**. Thank you.

Am I correct that the literature seems to suggest that we will be doing less well in semiconductors over the next few years than we are now? In other words, that we are going to be crowded more and more by the Japanese and the Germans?

Mr. **Olmer**. We will be crowded more and more by the Japanese. Whether we do less well is going to be largely a function of the U.S. Government and U.S. industry, U.S. Government insofar as it is prepared to take the kind of action necessary to allow the investment in Japan by U.S. companies, and to maintain a free trade posture which says to our trading partners in return for the free and complete access you have to our marketplace, we want similar behavior from you in return.

I do not feel pessimistic about the competitiveness of our semiconductor industry from now to the end of this decade, given certain things which I believe will take place. If we do nothing, if we as a government do nothing, and the industry does not take advantage of the opportunities which have been given to it, clearly we will lose our technological preeminence and will fall into first, second, initially second and then subsequently ever-declining positions of competitiveness.

Mr. **Pease**. Thank you. I am grateful for your optimism and I hope it is well placed. I think all of us hope it is well placed.

I guess the point I am trying to reach here is that I like to be a realist. I think we all ought to be realists and not kid ourselves. Unfounded optimism isn't worth a whole lot, as I am sure you will agree. If there is cause for optimism that would be wonderful and we ought to pursue whatever we can to help that, but I think we ought to not just flow along on good words.

I was struck yesterday by the testimony from Secretary Baldrige. In his conclusion he notes that we are going to seek to reduce barriers to trade and gain more access to foreign markets as essential steps in improving our export performance. Then he says:

> But these steps are not enough. One of the reasons for our relatively poor export performance has been insufficient commitment of resources and motivation in the business sector. We are responding to this situation in three ways: First, we are encouraging the private sector to do more.

That is OK, but that is not very concrete.

> Second, States and local governments which are closer to the individual reporter will be encouraged and assisted in their export promotion efforts.

I think on any kind of a quantitative basis that the efforts of State and local governments have to be pretty small compared with what actually is required to get our export performance improved.

The third thing he mentions is that:

> In order to use their resources efficiently, we are directing our program activities to country and product targets where the opportunities are the greatest.

That seems logical enough also, but as I look at these three items, they don't seem to add up to much of a hardheaded, practical solution to our export problems, and it is that lack of specificity, I guess, in what we are going to do that troubles me somewhat.

Mr. **Olmer**. Mr. Pease, I agree with everything that gentleman said. What did you say his name was?

Mr. **Pease**. Baldrige.

Mr. **Olmer**. Sure.

Mr. **Pease**. I am sorry, I didn't make that——

Mr. **Olmer**. I still agree with everything he said. In an economy the size of ours, I don't know how one can expect in a short paragraph to summarize all that needs to be done. There is nothing he said that is incorrect, by any objective independent standard. It does not lay out completely everything which does need to be done. Clearly, in the area of State and local governments there is a great deal that can be done.

I, as you know, just came back from Japan and spent some time with Ambassador Mansfield, during the course of which Governor Bond of Missouri came in with a retinue of exporters from the State, looking toward Japanese markets, doing some good works, and in my conversation with him I learned it was something fairly new to him.

I have met with other Governors who have undertaken market development programs from within their States, with a variety of assistance programs, some of them from the Federal Government, some from the Foreign Commercial Service, some from the U.S. Commercial Service, and it all adds up to a great deal. In the field of agriculture it means a lot of money, a lot of jobs. It is not to be underestimated. It is not going to turn the tide in terms of high technology preeminence by any shot, but it is an important contribution.

Mr. **Pease**. Thank you very much. Thank you, Mr. Chairman.

Chairman **Gibbons**. Thank you.

We thank the panel for their participation this morning.

Mr. Piper, I would appreciate your supplying responses for the record to some additional questions I have on aircraft.

Mr. Olmer, we look forward to sitting down and chatting with you about Japan.

Mr. **Olmer**. Thank you, sir.

[The questions and answers referred to follow:]

Questions. Of growing concern is the spillover effect on our commercial trade and competitiveness of military offset and coproduction requirements whereby our Defense Department enters into agreements with our allies, often upon their demand, to purchase foreign military equipment or to permit transfer of advanced technology through coproduction as an offset to military purchases by these countries from the United States. Japan has produced U.S. military aircraft, such as the F-15 fighter, strictly on a coproduction basis, insisting on establishing their own production line for components higher unit costs in order to gain the technology and experience to build their own commercial aircraft industry.

Have any analyses been made of what the trade impact of such arrangements is on our international competitiveness and what did they show?

Are such Defense Department policies and agreements subject to any review and approval by the interagency Trade Policy Committee mechanism as a substantive part of U.S. overall trade policy?

Answers. The primary impact on trade that coproduction arrangements have is in the field of shared military-civil technology. Many of the technologies used for military aircraft production can be used for civil aircraft as well. Manufacturing techniques, materials technologies, and advances in avionics can often be interchanged between the two product lines, and, in a number of instances, military and civil aircraft are produced side by side. As a consequence of the compatibility of the technologies involved in both civil and military aircraft production, foreign competitors can expect significant, beneficial technological spin-offs from military coproduction or licensed production agreements. The potentially significant impact of coproduction arrangements which involves technology transfer should be closely studied by appropriate USG agencies to determine whether the negative long-term impact of such a transfer outweighs the gains.

The most recent analysis of the spillover effect on our commercial trade and competitiveness of military offset and coproduction programs is the study entitled, "U.S. Defense Coproduction Programs Assist Japan in Developing Its Commercial Aircraft Industry" presently nearing completion by the General Accounting Office.

Our understanding is that that study addresses the essential aspects of the trade impact. When that report is available, we should be pleased to provide comment on it.

The Department of Defense policies, agreements, and considerations regarding military offsets and coproduction programs are not presently brought before the Trade Policy Committee, nor are the Office of the United States Trade representative or the Department of Commerce asked to assess the possible impact on the U.S. economic, industrial or trade interests resulting from such policies or agreements, either before or after commitments in this regard are made to our allies. We have been consulting with the Department of Defense regarding the possibility of developing a mechanism for analyzing the economic trade implications of such agreements. As a first step, we are in the process of establishing, jointly with DOD, a policy level private sector committee to advise the Deputy United States Trade representative and the Under Secretary of Defense for Research and Engineering with respect to economic, trade, and industrial implications of various Defense procurement policies, to include military offset and coproduction.

Questions. As you point out, Mr. Piper, U.S. aircraft companies in this time of high interest rates are turning more and more to foreign financing through coproduction to build the new generation of more energy efficient aircraft. What is the effect on U.S. future competitiveness of the private technology transfer accompanying these coproduction and component purchasing arrangements? What will be the effect of such action on the 10-15 thousand subcontractors to the U.S. aircraft industry and their employees?

Answer. International cooperative programs for the development of civil aircraft and civil aircraft engines are definitely increasing, in terms of the numbers of such programs and their scope. Indeed, a number of these programs involving U.S. companies were noted in my prepared testimony. Development of coproduction or licensed production relationships by U.S. manufacturers with foreign firms is not, per se, objectionable, but it is appropriate and important that we examine the reason for this trend and the probable consequences of it for U.S. economic, trade, and industrial interests.

SUMMARY OBSERVATIONS

Because of the importance of this question and the background discussion that is appropriate, the following summary points should be highlighted at the outset:

U.S. firms are increasingly seeking foreign partnerships to assist in meeting the substantial initial costs and economic risks associated with aircraft and engine programs;

In many cases, U.S. firms do not have the necessary resources to undertake the programs by themselves, or are unwilling to take the risks;

Aircraft programs do not offer good return-on-investment results in the near term;

Foreign firms do not face the same economic constraints to launching new programs;

U.S. firms are constrained by domestic statutes in arranging risk-sharing partnerships among themselves, but not from partnerships with foreign firms;

U.S. firms sometimes compete with each other in offering favorable partnership terms or subcontracts to foreign firms.

ECONOMIC CONSIDERATIONS SUPPORT COPRODUCTION

The basic reason U.S. firms are increasingly seeking foreign partnerships is economic factors and risks. Long lead times, heavy development expense, low unit rates of production, worldwide marketing requirements and risks, and a long period for amortization of development and production expenses are all characteristic of the civil aircraft and engine industries. U.S. private enterprise firms are finding that the risks inherent in civil aircraft programs, especially given the heavy funding requirements and slow paybacks, even for successful programs, are too great for private risk-capital ventures, or the funding requirements are just beyond the levels of resources of individual companies. The problem confronting U.S. companies is exacerbated by the fact that their foreign competition does not encounter the same barriers to product development and market entry, as they often can rely on government funding for all or substantial portions of the investment required, with little or no obligation to repay government funds until programs reach the point of profitability and with no carrying cost for funds advanced by governments. Thus, U.S. companies face the realization that the disciplines of the market that would compel termination of programs which are "slow starters" will usually not apply to their foreign competition, and as a consequence, their likelihood of establishing a commercially successful program is reduced, which in turn causes yet another hesitancy in even launching a program as they know that no government will protect them from the discipline of the world marketplace.

In substantiation of the above, one should note that a period of 5-6 years and an initial investment of $1.5-$2 billion are required to develop and launch a new transport aircraft, with a period of 6-8 years and at least $1 billion being required to develop and produce the engines. Even if the airframe and engine programs mesh (and the 150-seat new generation transport is now being delayed from 1986 to about 1988 entry into service because, in part, of nonavailability of an appropriate engine), the economic climate 5-7 years out may be such that airlines do not elect to purchase aircraft. (Just such a decline ten years ago nearly crippled Boeing's 747 program—even though the aircraft itself was essentially in a competitive class by itself.) Boeing had to put its net worth at risk in launching the 767 program, and then raise another $800 million (1978 dollars) or more to launch the 757 program.

General Electric was a strong engine competitor on the 757 (but far behind Rolls-Royce in accounted orders) when Pratt & Whitney promised a new and better engine for airlines willing to defer 757 purchases a year. A year ago, American and Delta placed large orders with Pratt & Whitney, and General Electric withdrew from the competition. But this market discipline did not apply to the GE-SNECMA CFM 56 (carried through virtually into production by the French in the absence of any firm orders), The BAe 146 (development of which was halted in 1973 by Hawker-Siddeley, but resumed in 1978 by British Aerospace after the nationalization of Hawker-Siddeley), or the Airbus A300 (which had orders for only ten aircraft and none outside of France or Germany for its first three years on the market).

An unsettling trend among U.S. aerospace companies is the shift of management reins from aeronautical entrepeneurs driven by a desire to build bigger, better, faster aircraft to business executives more focused on return-on-investment, whether long-term or short-term. A civil aircraft program with an initial investment of $1-$2 billion required (or even $350-$500 million for a commuter aircraft) and virtual assurance of no net gain for at least 10-15 years is not where ROI-focused business executives will put new investment money.

Another stimulant to coproduction programs is the competitive posture among American firms. In some cases two American firms are competing with each other and with some foreign firm(s). Either of the American firms may feel that they could develop a stronger or more competitive program with a foreign partner, which fact then stimulates the other American firm to seek a partnership with the same or another foreign firm. In the ensuing partnership bidding race, the U.S. value-added tends to be diminished.

Similarly, American firms sometimes find themselves competing with each other in offering supplier subcontracts (i.e., offsets) to foreign firms in an attempt to strengthen their marketing efforts. If they were permitted to consult with each other about the amounts of offsets, then perhaps some of these offset bidding contests, which have the effect of taking business away from America's subcontractor base, could be restrained.

One possible remedy to the lack of adequate resources for launching new programs by a single company would be for U.S. firms to enter into risk-sharing partnerships with each other, not just with foreign firms. However, concerns with the possible application of anti-trust statutes may effectively preclude the development of such discussion. As a consequence, U.S. firms seek foreign, not domestic partnerships, or withdraw from some civil aircraft sectors. To illustrate this point, note that McDonnell Douglas has developed a partnership with Fokker of the Netherlands, and Lockheed has now announced that it will cease commercial transport aircraft manufacture.

ECONOMIC CONSEQUENCES OF COPRODUCTION

Companies in foreign countries are increasingly realizing that, despite the high costs of entry into aircraft manufacture, they can join the industry on a world-wide basis by teaming with established American companies, and thereby gain the technology and prestige associated with this manufacturing industry. To some extent these coproduction or subcontracting relationships extend the scope of operation of American manufacturers and, in some instances, may facilitate marketing programs.

However, the more obvious effect is that U.S. market share (in terms of value added) will be diminished. Diminution of market share is perhaps to be expected, given America's historical dominance of the free world's civil aircraft manufacturing. Indeed, it need not necessarily be bad, if it results in a stronger marketing position, a larger market altogether and a more stable production cycle (wherein foreign companies bear some of the substantial cyclical risks).

The central question though is the long-term strength and integrity of the American aircraft industry, which encompasses not only the major airframe and engine manufacturers, but thousands of other firms nationwide, many of which are small businesses, supplying major and minor assemblies for the complete aircraft. (For example, in 1980 over 3,000 firms received orders for more than $6 billion worth of commercial transport aircraft components and subassemblies directly from Boeing, Douglas, and Lockheed.)

If present trends continue, much of this subcontracting business is likely to be shifted from American firms—big and small—to foreign firms who have a partnership stake in new aircraft programs. This will be especially true in cases where the airframe manufacturer seeks to share development risks (e.g., design and tooling expense) with major subcontractors (i.e., companies like Avco, Fairchild, General Dynamics, LTV, Rohr, TRW), if those subcontractors are unable or unwilling to invest the millions of dollars of their own funds required to cover a share of the intial expenses. Foreign governments are helping their companies to cover these risks, and then typically seeking a larger participation share in the subsequent program. As a consequence, business for American subcontractors will diminish, competition among them will lessen as the subcontracting base shrinks, and there may be a slowing of modernization investment for aircraft component manufacture as some of these firms and their labor forces are compelled to shift to other product lines.

We do not have available quantitative information on the long-term effect of coproduction and foreign subcontracting on America's industrial base, nor do I believe that such a study has been made.

Question. What efforts have been made to achieve international agreement on minimum interest rates for aircraft sales to the U.S. market and for general aviation aircraft sales, and what are the prospects for success?

Answer. The basic international agreement on export credit financing (the so-called 1978 OECD arrangement on Guidelines for Officially Supported Export Credits) explicitly excludes aircraft (and also nuclear power plants and ships). Export credity practices for aircraft are instead governed by the May 1975 Aircraft Standstill Agreement, which provides only that participants (i.e., the OECDD members) agree not to provide official financing on terms more generous than the then-current practices—a maximum term of 10 years (12 years for leases). The Standstill provides no discipline on interest rates and none on minimum downpayment (although 10 percent was subsequently accepted). Both the Arrangement and the Standstill apply to sales into the U.S. domestic market. The Standstill covers all aircraft—not only large transport aircraft, but also business jets and turboprops, general aviation aircraft, and helicopters.

U.S. Government efforts to eliminate export credit subsidies have focused principally on reforming the Arrangement—as that undertaking covers almost all products. We have not formally attempted revision of the Aircraft Standstill in the past two years.

As the principal aircraft export credit financing requirements and problems have been in the large transport aircraft category, we have for nearly two years held discussions with the major Airbus partners (i.e., the British, French, and Germans) with a view to reaching a common line within the context of the Standstill for financing offers so as to neutralize export credits as a competitive element. As was brought out by Treasury and Ex-Im Bank witnesses in these hearings, we were successful last July in reaching a common understanding for large transport aircraft (DC-9, 737, and larger) not to offer interest rates below 12 percent and to limit the portion of a transaction to be covered by official export credits. This understanding explicitly does not apply to export credits for aircraft transactions in the United

States, Britain, France, or Germany as we were not willing to accept a below-market rate of interest as being fair or reasonable for sales into the United States, especially inasmuch as U.S. manufacturers and purchasers must arrange private financing without any funding or subsidy from the Government.

This common understanding is an acceptable interim step, but not acceptable as a permanent system, because it continues to involve a substantial government role in financing while continuing to deny our use of longer maturities—a major strength of U.S. capital markets—hence the U.S. proposal to study extended maturities, and the expiry date of the common line understanding of September 30, 1982. We envision going to 15–18 year maturities next year, if need be.

We recognize the need to consider better financing rules for smaller general aviation and commuter size aircraft, and also for 80–110 seat aircraft. The May 1975 Aircraft Standstill applies, but provides inadequate discipline—a point we have also made in the course of appropriate GATT meetings in Geneva.

The Administration, under the leadership of the Department of Treasury, will be seeking negotiation early next year of international agreement on (1) appropriate interest rates for commuter aircraft, business jets, and other general aviation aircraft, applicable to all markets and (2) no subsidization of export financing for sales of any aircraft into the United States.

But lest there by any misunderstanding as to existing U.S. statutes on countervailing duties, we have advised our trading partners and our importing companies that export credit subsidies which cause injury are actionable under U.S. trade law. (See Ambassador Brock's statement before the Committee, October 28, 1981.) By calling attention to our existing trade policies and statutes regarding subsidy, we hope that aircraft purchasers will recognize the potential consequences of accepting subsidized financing, and so arrange purchase financing on a commercial, not a government-subsidized basis. With a public reminder before new contracts are negotiated, perhaps we can reduce the likelihood of a major confrontation with our trading partners over the subsidization of export credit interest rates in the United States.

Questions. U.S. producers of launch vehicles and spacecraft are concerned about foreign, particularly French, subsidized financing of sales to U.S. producers.

Are such vehicles included under an international agreement on minimum interest rates? If not, shouldn't they be and what exports are we making? If cooperation with the French to eliminate predatory financing is not forthcoming, in what ways can the U.S. Government combat these practices?

Has any evaluation been made to establish the potential loss in balance of trade if erosion occurs in the spacecraft, space launch and space technology areas so long dominated by the U.S.?

Answers. Arianespace, a French government-sponsored and partially owned quasi-private organization which will build and operate the Ariane expendable launch vehicle, has initiated, with the cooperation of the French Government, a very intensive and aggressive marketing effort that includes heavily subsidized prices well below comparable U.S. expendable launch vehicles and competitive with current Shuttle prices, plus very attractive financing terms. We understand that the latter permit the customer to pay 20 percent down 30 months prior to launch, with the remaining 80 percent payable over five years starting six months after launch at 9½ percent interest. By comparison, present U.S. terms require—for the Shuttle, $100,000 earnest money at signup, 10 percent 33 months before launch, 10 percent 27 months before, 17 percent 21 months before, 17 percent 15 months before, 23 percent 9 months before, the remainder 3 months before. For expendable launch vehicles the payment schedule is similar but slightly different in detail. Arianespace has already firmly booked a total of 19 payloads with earnest money deposits for 12 more.

The competitiveness of Ariane—price, schedule and financing—is becoming increasingly obvious. They have recently made the first penetration of the U.S. market. Southern Pacific Communications (SPC), a subsidiary of Southern Pacific Railway Company, which deposited $100,000 earnest money and was negotiating with NASA for four launches, are now completing final negotiation for at least one mission and possibly two with Ariane. Southern Pacific officials have acknowleged to the NASA that the lower charges for Ariane hardware and launch services together with the financing arrangements mean savings of at least $30 million for two missions compared to NASA charges.

The potential effect on our balance of trade is significant. For spacecraft manufacture and launch services, it could amount to at least $800–$900 million in the next four years and could grow to $500 million per year in the late 1980s. The actual figure would probably be higher when one recognizes that the launch services and spacecraft manufacturing plus the contracts to build all the ground stations can and will be offered as a package deal by Ariane. Thus, they could capture the high technology base which will influence competition on many related products in the future.

As you are aware, the Japanese also, with U.S. support, have been very active in rocket and space developments. While our current agreement precludes Japan from providing launch services to third parties without U.S. concurrence, this will likely change in the future, and the Japanese will also enter the competition.

The overall balance of trade impacts have real significance. The communication satellite business alone has been growing at a 25 percent per year rate with foreign sales accounting for an increasing portion of the business. Use of U.S. launcher services can have significant corollary benefits for U.S. manufacturers of communications satellites and ground stations.

Export financing for expendable launch vehicles should be in accord with the OECD Arrangement on Guidelines for Officially Supported Export Credits. The minimum interest rates in the Arrangement were raised in October, for loan commitments made on or after November 16, to a range of 10–11.25 percent, depending upon the length of the repayment period and the development status of the borrowing country. However, loan commitments made prior to the November 16 effective date of these rates may still be honored at the previous, lower rates of interest (the range of minimum interest rates had been 7.75–8.75 percent).

The United States can continue to win the commercial space communications market only so long as we retain our technical leadership and are financially competitive. We are discussing the implications of the foreign competition with NASA so as to be fully informed on the competitive situation, in preparation for taking actions, as appropriate, to respond to unfair foreign trade practices or injurious subsidies.

Chairman **Gibbons**. Our next panel of experts is here for discussion of the U.S. balances of trade and payments and the impact of U.S. monetary and fiscal policies. From the Treasury we have Mr. Leland; from the Federal Reserve, Governor Wallich; from the Council of Economic Advisers, Mr. Niskanen; from the U.S. Trade Representative's Office, Mr. Bale; from the Department of Commerce, Mr. Dederick.

I believe I have statements from every one of you. May I say that we will put all the statements in the record, and we will proceed first with Mr. Leland.

STATEMENT OF MARC E. LELAND, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, DEPARTMENT OF THE TREASURY

Mr. **Leland**. Thank you, Mr. Chairman. Again I appreciate this opportunity to appear before the committee today to discuss U.S. trade policy and the balance of payments outlook.

As you mentioned, we have submitted a statement for the record, so I will just read a summary of the highlights of that statement.

The administration approaches international trade policy in a manner consistent with our approach to the domestic economy. We take a very strong free market position on domestic economic issues. We have a philosophy of limited intervention with the market process. We believe it is vitally important to reduce Government interference with the operation of the marketplace.

We carry the logic of this economic approach into the international sector as well. The most beneficial international trade policy is one of free trade. It is a fundamental international economic goal of this administration to maintain open markets at home and achieve reduction of foreign trade barriers which affect our exports.

For the first time, this administration will focus critically on barriers to international transactions in services as well. We will also focus attention on restraints that prevent the free movement of capital between countries. Our goal is a less encumbered international economy which promotes the free and efficient movement of goods, services, and capital among countries.

The economic benefits accruing from free trade are well known. I don't have to go through them here. On the other hand, in 1971 we experienced our first trade deficit, a small one of $2 billion, but the first of the post-war era. Our merchandise trade deficit grew to around $34 billion in 1978. Since then the deficit has fallen but remains large, about $25 billion last year. However, the big swing in the U.S. trade balance over the past decade is not a sign of a generally weak U.S. competitive position.

The main cause is easy to pinpoint. It is imported oil, combined with continued growth through most of the decade in the quantity of oil imports. Oil imports in the first half of 1981 ran at an annual rate of $84 billion in comparison with about $3 billion in 1970. This has been largely offset by a remarkable strengthening in the balance of non-oil trade, roughly half of which came from the agricultural sector. I should note that our performance on oil imports has improved substantially since 1977.

In the first half of this year, the average daily quantity of oil imported into the U.S. was about 29 percent below that of 1977. This impressive saving demonstrates in large part the benefits of decontrol, permitting the marketplace fully to reflect underlying costs and influence consumer behavior accordingly.

International trade was the fastest growing major sector of the U.S. economy during the 1970's. As a consequence, the share of merchandise exports in U.S. GNP rose from 4.3 percent in 1970 to 8.5 percent in 1980. The increase in imports was even greater but this was because of oil, 4 percent to 9.5 percent as a proportion of GNP.

To complete this overview of the U.S. balance of payments, let me turn briefly to the capital account. Behavior of the U.S. capital account largely reflects both the major role of U.S. financial markets in the international economy and the relative attractiveness of the U.S. financial assets.

Flows of capital into and out of the United States are huge. Last year the increases in U.S. liabilities to and claims on foreigners recorded in our balance of payments statistics totaled $135 billion. With the success of the President's economic recovery program, we will likely see a further strengthening of the role of U.S. capital markets in coming years.

The U.S. financial system is being strengthened and our economic performance will be dramatically improved. This will act not only to improve the efficiency of the United States as a financial center, but should also stimulate in-flows of capital to finance domestic investment.

As to recent developments, the merchandise trade deficit has been smaller during 1980 and the first half of 1981 than the record high deficits of 1977 and 1978. The slight continued improvement in the U.S. trade balance early this year may reflect the first phase of the "J-curve" effects of dollar appreciation in 1980 and 1981, but other things remaining the same—I might note they hardly every do—we would expect the loss of price competitiveness resulting from dollar appreciation to lead to deterioration of the trade balance in the near future.

In fact, since mid-year the monthly trade figures have shown some increase in the merchandise deficit to an annual rate of $29 billion in July–September, compared with $23 billion in the first half.

Turning to the outlook for the trade and current account balances for the remainder of this year and next, it is fairly clear that the trade balance will remain roughly unchanged this year, from last year's $25 billion deficit. We anticipate that the current account should again be a moderate surplus, perhaps somewhat larger than last year. However, both balances appear to have been turning downward.

Looking to the next year, the direction of change in our trade and current accounts is reasonably clear, but the timing and the magnitude of the change is uncertain. Several factors will be at work.

One of the major determinants of the near-term outlook is the effect of recent exchange rate changes on U.S. competitiveness. Price competitiveness is basically determined by three factors: Domestic prices or cost of production, foreign prices or costs, and exchange rates. As a result of the appreciation of the dollar in foreign exchange markets over the past year, our exports are now considerably more expensive to foreign customers than they were earlier, and their products less expensive to us. With the lag, this loss in price competitiveness tends to result in lower U.S. exports. Foreigners will select other countries' products over U.S.-produced goods.

The loss of price competitiveness also tends to cause higher U.S. imports, as goods produced abroad become less costly to U.S. consumers than domestically produced goods. In general, we would expect that the trade deficit is likely to become larger over the course of next year on the basis of this change in U.S. price competitiveness.

Other important factors in determining the trade and current account balances are U.S. growth, foreign growth, and oil market developments. As President Reagan recently stated, we are in a recession now. Historical experience indicates the U.S. imports are very sensitive to U.S. growth.

Import demand is likely to be very weak during recession but likely to rise rapidly when we enter into a vigorous recovery. Our current projections suggest moderate recovery in the world economy next year starting sometime in the first quarter, but the economies of our major trading partners are not likely to expand as rapidly as our own economy. U.S. exports, which depend heavily on economic growth abroad, will probably grow less rapidly than U.S. imports. As a result, relative growth rates will tend to mean a growing trade deficit.

All of these will interact to determine our level of trade and current accounts. Overall, next year we would expect a widening of the trade deficit and a shift into moderate deficit in current account.

Trying to look much further into the future is extremely difficult. Few sitting here in the early 1970's would expect the dramatic development in world trade and current account balances that have occurred during the last few years. At the moment our oil imports are dropping significantly, and this is a trend we need to maintain. Our balance on nonoil trade is in major surplus. I have mentioned our growing surplus on services and we have every reason to believe that this surplus will continue to increase significantly in a healthy world economy.

Equally important, if a rapidly growing U.S. economy and rising imports were to move us toward current account deficit over the next few years, the forces causing the economy to grow would also tend to induce ample capital inflows to finance that deficit, and to add to the pool of financial resources available for capital formation in the United States.

Finally, our domestic economic program is designed to bring about a major reduction of the burdens of government on the economy, and a major strengthening of private savings, investment, and in productivity. The success our program is likely to alter the historical relationships between economic factors and our balance of payments, by making the domestic economy more dynamic and efficient.

In conclusion, Mr. Chairman, I would like to say that the United States is a major part of the world economy, and in turn international transactions in merchandise, services, and capital are a rapidly growing part of the U.S. economy. It is important that we maintain a strong competitive position in the world marketplace.

This requires action in two broad areas—first, reduced inflation and promoting increased domestic savings, investment and productivity growth. The President's economic recovery program squarely addresses these primary needs.

Second, we need to continue our efforts to strengthen the free international trade system. We must resist protectionist pressures in the United States and continue to push strongly for freer trade abroad. With success on both of these fronts, international trade in goods and services will provide challenging opportunities for the U.S. economy in the rest of the 1980's.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF HON. MARC E. LELAND, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, DEPARTMENT OF THE TREASURY

Mr. Chairman and members of the Subcommittee: I appreciate this opportunity to discuss U.S. trade policy and the balance of payments outlook.

The Administration approaches international trade policy in a manner consistent with our approach to the domestic economy. We take a very strong free market position on domestic economic issues. We have a philosophy of limited intervention with the market process. We believe it is vitally important to reduce government interference with the operation of the marketplace, whether that interference occurs directly through the purchase or sale of goods and services, or indirectly through regulations, rules, or other hindrances to the operation of markets.

We believe that the most beneficial international trade policy is one of free trade. It is a fundamental international economic goal of this Administration to maintain open markets at home and achieve reduction of foreign trade barriers which affect our exports. For the first time, this Administration will focus critically on barriers to international transactions in services as well. We will also focus attention on restraints that prevent the free movement of capital between countries. Our goal is a less encumbered international economy which promotes the free and efficient movement of goods, services, and capital among countries.

The economic benefits accruing from free trade are well known. They are not theoretical. They are hard, proven facts. Competition provided by imports from abroad gives consumers the widest possible range of choices and exerts considerable pressure for holding down domestic inflation. Exports to foreign markets create employment and profits for our domestic firms and agricultural sector. Full realization of these double gains requires an international system of even-handed free trade. No nation can, of course, impose free world trade by itself. The full gains accrue only when all nations move together toward freer trade. This Administration will press strongly for that movement.

CHANGING PATTERNS OF U.S. TRADE

We face a new trade environment in the decade of the eighties. Over the past decade, we have seen major changes in trading patterns among countries with the emergency of OPEC and advanced developing countries as major world traders. The decade of the seventies also saw the culmination of multilateral trade negotiations which resulted in substantial reductions in tariff and non-tariff barriers; and the last round of negotiated tariff cuts will become effective in 1987. It will take some time yet for trade flows and domestic economies to adjust fully to these multilateral tariff reductions. Let me briefly review our own trading experience during the past decade to set the stage for what I expect to be a dynamic trading environment for the eighties.

From the end of World War II through 1970, the U.S. continuously recorded surpluses on its merchandise trade account. In 1970, the trade account was in surplus by almost $3 billion (on a balance of payments basis). In 1971, we experienced our first trade deficit—a small one of $2 billion—but the first of the postwar era. Our merchandise trade deficit grew to a record $34 billion in 1978. Since then the deficit has fallen, but remains large—about $25 billion last year. Indications are that the deficit will be similar this year; and with resumption of U.S. economic growth, the trade deficit is likely to widen somewhat next year.

A main cause of the big swing in the trade balance during the seventies is easy to pinpoint: the massive increase in the price of imported oil, combined with continued growth, through most of the decade, in the quantity of oil imports. Oil imports in the first half of 1981 ran at an annual rate of $84 billion, in comparison with about $3 billion in 1970, a deterioration on this account of $81 billion. This has been largely offset by a remarkable strengthening in the balance of non-oil trade, from a surplus of about $6 billion in 1970 to a very large surplus of $54 billion last year. With respect to the major strengthening of our non-oil trade balance over the decade, roughly half of the gains came from agricultural trade.

I should note here that U.S. performance on the oil import account has improved substantially since 1977. In the first half of this year, the average daily quantity of oil imported into the United States was about 29 percent below the peak daily average of 1977. Without this decrease in oil import volume, oil imports in the first half of 1981 would have been running at an annual rate of nearly $120 billion, instead of the $84 billion I mentioned earlier. This is an impressive saving. It demonstrates in large part the benefits of decontrol, permitting the marketplace fully to reflect underlying costs and influence consumer behavior accordingly.

International trade was the fastest growing major sector of the U.S. economy during the decade of the seventies. As a consequence, the share of merchandise exports in U.S. GNP rose from 4.3 percent in 1970 to 8.5 percent in 1980. The increase in imports was even greater—because of oil—from 4 percent to 9.5 percent as a proportion of GNP.

These trends in merchandise trade have been accompanied by a major expansion of U.S. participation in international services trade—tourism, travel, royalties and fees, direct investment income, interest on bank loans, and military sales and services.

The services sector has received little attention in most analyses of the U.S. external position and our basic international competitiveness, but it has become a large and growing part of U.S. international activity. Continuous growth in the surplus on trade in services helped strengthen the U.S. current account position during the seventies.

In 1970, gross flows in the services sector of U.S. international accounts—receipts plus payments—totalled about $43 billion. By 1980, total U.S. trade in services had grown to $205 billion. This roughly five-fold increase during the decade broadly kept pace with the growth in the value of U.S. merchandise trade.

From 1970 to 1980, the U.S. surplus on service transactions grew from $3 billion to $36 billion. Investment income was the major contributor to our growing surplus. In 1980, net earnings on our direct investment abroad were $20 billion higher than in 1970. In addition, net U.S. earnings on bank transactions and securities were more than $6 billion larger in 1980 than in 1970. The "invisibles" surplus—net service transactions minus private remittances and government grants of $7 billion—was about $29 billion in 1980, more than offseting the merchandise trade deficit and producing a $3.7 billion U.S. current account surplus.

To complete this overview of the U.S. balance of payments let me turn briefly to the capital account. Behavior of the U.S. capital account largely reflects both the major role of U.S. financial markets in the international economy and the relative attractiveness of U.S. financial assets. Our financial markets have long played a dominant role in the international financial system, dating from the years immediately after World War II when the dollar was the only freely convertible currency and we maintained the only open capital market. Today, the U.S. capital market, in combination with the overseas Euro-dollar markets, is still the largest on the international financial scene, and the dollar is still by far the most widely used currency in international transactions.

Flows of capital into and out of the United States are huge. Last year, the increase in U.S. liabilities to foreigners recorded in our balance-of-payments statistics was $85 billion, and U.S. liabilities to foreigners rose by $50 billion. (The balance-of-payments statistics also contained a $30 billion statistical discrepancy, which appears to reflect mostly unrecorded capital inflows.) Of the total $135 billion of recorded capital flows, $19 billion represented direct investments abroad by U.S. residents, and $11 billion represented direct investments in the U.S. by foreigners. The considerable remainder—some $105 billion—represented mainly banking and securities transactions between the United States and foreign countries, plus smaller private and government transactions of other types.

It is in the category of banking and securities transactions that we have seen the big growth in recent years. In 1970, when gross recorded capital flows in U.S. balance of payments accounts were $16 billion, direct investment flows accounted for $9 billion of that total—so that all other types of flows, mainly banking and securities, accounted for less than half of the total. Last year, these banking, securities and miscellaneous flows accounted for nearly 80 percent of the $135 billion total.

With the success of the President's economic recovery program, we will likely see a further strengthening of the role of U.S. capital markets in coming years. The U.S. financial system is being strengthened, and our economic performance will be improving dramatically. This will act not only to improve the efficiency of the United States as a financial center but will also stimulate inflows of capital to finance domestic investment.

RECENT DEVELOPMENTS

The merchandise trade deficit has been smaller during 1980 and the first half of 1981 than the record high deficits of 1977 and 1978. There are, however, signs of a turning point during the first half. In the first half, our surplus in trade with European countries was reduced significantly, mainly due to relatively weak European economic performance and strong U.S. real growth early in the year. While the rising dollar value of our exports has kept pace with the rising cost of U.S. imports, import volume has grown much more rapidly than export volume.

This pattern of growth partly reflects the impact of dollar appreciation in 1980 and 1981. Most research on the impact of exchange rate changes on trade flows suggests that the effects are felt in two distinct phases. During the first phase, the volume of trade remains unchanged but the prices are affected by the exchange rate change; an exchange rate appreciation therefore produces a temporary improvement in the trade balance. But during the second phase, consumers alter the volume of their purchases in response to changes in relative prices. After a lag, an appreciation results in more imports, fewer exports and a deterioration in the trade balance. These two phases of trade balance adjustment are described as being the "J-curve" effects of exchange rate change—temporary movement in one direction followed by a larger reversal over the longer-term.

The slight continued improvement in the U.S. trade balance early this year may reflect the first phase of these "J-curve" effects of dollar appreciation in 1980 and 1981. But other things remaining the same, we would expect the loss of price competitiveness resulting from dollar appreciation to lead to deterioration of the trade balance in the near future. In fact, since mid-year, the monthly trade figures have shown some increase in the merchandise deficit.

THE OUTLOOK

Let me now turn to the outlook for the trade and current account balances for the remainder of this year and next. With three-fourths of 1981 already past, it is fairly clear that the trade balance will remain roughly unchanged from last year's $25 billion deficit. We anticipate that the current account should again be in moderate surplus—perhaps on the order of $5–10 billion, somewhat larger than last year. However, both balances appear to have been turning downward during the course of the year.

Looking into next year, the direction of change in our trade and current accounts is reasonably clear, but the timing and magnitude of the change is uncertain. Several factors will be at work. One of the major determinants of the near term outlook, as I mentioned earlier, is the effect of recent exchange rate changes of U.S. competitiveness.

The concept of international competitiveness is relatively easy to describe, but difficult to measure statistically. We would define international competitiveness as the attractiveness, in both price and non-price terms, of a country's export products and import substitutes compared with the goods produced in the rest of the world. Price competitiveness is basically determined by three factors: domestic prices or costs of production; foreign prices or costs; and exchange rates.

As a result of the appreciation of the dollar in foreign exchange markets over the past year, our exports are now considerably more expensive to foreign customers than they were earlier, and their products less expensive to us. From the beginning of 1980 to a peak in August of this year, the dollar appreciated by nearly 20 percent against the currencies of other developed countries on a trade-weighted average basis. The worsening of the U.S. competitive position caused by the appreciation of the dollar over the last two years has been aggravated by a relatively poor U.S. inflation performance. The U.S. inflation rate has been slightly higher than that experienced by our trading partners on average.

With a lag, this loss in price competitiveness tends to result in lower U.S. exports. Foreigners will select other country's products over U.S.-produced goods. The loss of price competitiveness also tends to cause higher U.S. imports, as goods produced abroad become less costly to U.S. consumers than domestically produced goods. In general, we would expect that the trade deficit is likely to become larger over the course of next year on the basis of the change in U.S. price competitiveness.

Other important factors in determining the trade and current account balances are U.S. growth, foreign growth, and oil market development. As the President recently stated, we are in a recession now. Historical experience indicates that U.S. imports are very sensitive to U.S. growth: import demand is likely to be very weak during recession, but likely to rise rapidly when we enter into a vigorous recovery.

Our current projections suggest moderate recovery in the world economy next year, starting sometime in the first quarter. But the economies of our major trading partners are not likely to expand as rapidly as our own economy. U.S. exports, which depend heavily on economic growth abroad, will probably grow less rapidly than U.S. imports. As a result, relative growth rates will tend to contribute to an increased U.S. trade deficit.

Finally, developments in international oil markets will play a major role in the outlook for the U.S. trade balance. At current levels of U.S. oil imports, we estimate that in the very short run a $1 per barrel increase in oil prices would add about $2 billion to our oil import costs. Over time, however, this figure would be reduced because higher oil prices would tend to reduce U.S. oil consumption and imports. Most observers expect that the current relatively soft conditions in oil markets will prevail for some time to come—which would tend to rule out any major rise in the cost of imported oil over the course of next year.

All of these factors will interact to determine the exact level of our trade and current accounts. Overall for next year, we would expect some widening in the trade deficit and a shift into modest deficit on current account.

Trying to look much further into the future becomes very difficult and tenuous. Certainly few sitting here in the early seventies would have expected the dramatic developments in world trade and payments balances that have occurred during the last few years. As an approximation, I would guess that unless there are fundamental structural changes in the world economy over the decade, the U.S. current account balance will tend to fluctuate around rough balance—sometimes in surplus, sometimes in deficit. But this kind of pattern could be changed by unforeseeable economic factors, some that are under our control or influence and some that are not.

At the moment, our oil imports are dropping significantly, and this is a trend we need to maintain. Our balance on non-oil trade is in major surplus. I've mentioned our growing surplus on services—and we have every reason to believe that this surplus will continue to increase significantly in a healthy world economy. Equally important, if a rapidly growing U.S. economy and rising imports were to move us toward current account deficit over the next few years, the forces causing the economy to grow would also tend to induce ample capital inflows to finance that deficit, and to add to the pool of financial resources available for capital formation in the United States. Finally, our domestic economic program is designed to bring about a major reduction of the burdens of government on the economy, and a major strengthening of private savings, investment, and productivity. The success of our program is likely to alter the historical relationships between economic factors and our balance of payments by making the domestic economy more dynamic and efficient.

CONCLUSION

The United States is a major part of the world economy. And in turn, international transactions—in merchandise, services, and capital—are a rapidly growing part of the U.S. economy. It is important that we maintain a strong competitive position in the world marketplace. This requires action in two broad areas: reduced inflation and promoting increased domestic savings, investment and productivity growth. The President's economic recovery program squarely addresses these primary needs. Secondly, we need to continue our efforts to strengthen the free international trading system. We must resist protectionist pressures in the U.S. and continue to push strongly for freer trade abroad. With success on these two fronts, international trade in goods and services will provide major opportunities for the U.S. economy in the decade of the eighties.

Chairman GIBBONS. Thank you, Mr. Leland.

Our next witness is Governor Wallich.

STATEMENT OF HENRY C. WALLICH, GOVERNOR, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM

Mr. WALLICH. Mr. Chairman, I am honored and pleased to be with you here today. Do you wish me to read my statement?

Chairman GIBBONS. Whatever you feel would be best.

Mr. WALLICH. I will try to save the committee's time, if I may, and abbreviate it. My main topics will be a review of recent developments in our trade and current accounts, then the outlook for the future. After that I will take a look at the policy factors that your letter inquired about, both macropolicies and those specifically directed at trade in goods and services.

First I think we want to note that the United States has shown itself to be quite competitive in exports. There was a time when there had to be some concern about this, but the performance of exports over the last few years has been very encouraging. To be sure that occurred in response to a decline in the dollar, but the way in which exports responded with a 20-percent rise in volume over 2 years I think shows that American industry is alive to its opportunities abroad.

At the same time, we did not get much of an increase in imports. Now, this is noteworthy because we had a very large rise in oil imports, and yet despite a rise in our oil bill to $80 billion, there was only a moderate rise in total imports. So the trade deficit dropped from $34 billion in 1978 to $25 billion in 1980.

This may not sound like a great performance, but two things need to be remembered: one is the oil imports; the other, that we are structurally now in a position of having a large surplus in the services account. One would normally expect us to have a deficit on trade account if the current account is to be anywhere near balanced. Other countries are in a very different position in that regard.

The growth of the service surplus is the result in part of the growth of earnings of American companies abroad, including oil companies, although simultaneously, our outpayments in service accounts have also gone up. The total of service receipts now is 35 percent of our total current account receipts, more than one-third. On the payments side, the total is about one-quarter service payments out of total outpayments.

The current account surplus that we have enjoyed as a result of this strong rise in exports has had an effect on the dollar, together with other variables. The rising prospects that we will get inflation under control, together with a strong current account and a restraining monetary policy, have led to a strong dollar. It has by no means been all due to monetary policy.

We are in a situation that shows competitiveness, and that shows that we can face the future in a systematic way. We are not facing a crisis situation in our trade position, but can take a long-run point of view. It is true that with the high dollar we have to anticipate some weakening in our export situation, and likewise some weakening in the current account, which is likely to move from a slight surplus into some degree of deficit.

This will be moderated because we can look forward to slightly better performance of our trade partners abroad, to whom we sell. We can also expect OPEC purchases from the United States to go up. But on the other side, as I say, there is the high level of the dollar and possibly restraint by the developing countries of their imports as they have increasing difficulties to finance those.

Now, a deficit in our current account, again, would not be a calamity, so long as it is of reasonable proportions. In fact, it may reflect a necessity that somewhere in the world there has to be a counterpart to the OPEC-imposed deficit; that is, if the OPEC has a surplus, somebody else must necessarily have a deficit. The OPEC surplus is coming down rapidly, which is, of course, the optimal response to it, but meanwhile where does the deficit land?

If it lands in part on the United States, this is not a bad solution. What would be very undesirable is some countries getting into a position of very strong surplus, and adding to the need of financing of these deficits that the OPEC already is imposing on us.

Now we turn to our policies and their relation to international trade. I think the No. 1 consideration internationally at home is to get the inflation down and in the process improve the productivity of our economy. Temporarily, monetary restraint imposes an interest rate effect on the dollar, which, as I say, is not the only effect to which the dollar is exposed. That is one of the consequences of monetary restraint which we need in order to get inflation under control.

Exports and imports have become much more important as our country has become more open, increasing from something like 7 percent each in relation to GNP in 1970 to something like 13 percent each in 1980. We need to take trade increasingly into account.

We look, in making economic projections of the economy, at what is likely to be ahead in foreign trade, because that has become a so much more important sector. Likewise, one has to take into account what is happening in the domestic economy, in evaluating prospects for exports and imports.

Now, here we have to recognize again monetary policy has a role to play. It is not the only force, however, that should be brought to bear on inflation, and that needs to be considered in the formulation of monetary policies and its impact on trade.

I haven't said anything on your question, Mr. Chairman, with respect to the role of banks. The banks, of course, have done a tremendous job in recycling the OPEC surplus. American banks are very much in the lead of that. They have pulled back somewhat since then. There are, I think, limits to what the banks can do, but in a prudent way they can certainly continue to contribute.

The banks finance exports, both directly and indirectly, by financing the working capital position in expansion of commercial businesses.

The Federal Reserve has done something to strengthen our financing mechanism. We were instructed under the International Banking Act to expand the facilities of edge corporations. That has been done in two ways. One is to allow them to have branches around the country, thereby giving them a broader presence, and by allowing them to finance companies that are engaged in exports, provide them with working capital, even if no firm export order is present, whereas in the past there was a need to finance only goods that were clearly at that point in the stage of being exported.

One of the important areas in which the Government can contribute to exports is regulation. I think others have covered that point before your committee. There are many regulations, as you know, that make exporting more difficult, and some of them seem to be in the process of being modified.

Another important aspect is to bear in mind that whatever is done to shield domestic industries against competition also has repercussions on exports. It is not only the consumer who is affected, but also the exporter, whose costs go up, so that the consequences of a protection measure are much more far reaching than one might at first glance think. By the same token, as domestic industries are enabled to maintain higher prices, that will have negative reactions for trade.

In summary, trade policy needs to be viewed as part of our overall economic policy in the context of our objectives of maintaining a sustainable rate of growth and bringing the rate of inflation down. Policies that increase, that affect the efficiency of the economy and encourage movement of resources into expanding sectors, will help us to attain these objectives, and one of the functions of exports has been precisely to improve this allocation of resources.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF HENRY C. WALLICH, MEMBER, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

I am pleased to be here today, on behalf of the Federal Reserve Board, to discuss U.S. trade policy.

In my remarks today I should like first to review recent developments in our trade and current accounts, and then examine briefly prospects for the future and the more important factors affecting that outlook. Among these factors are general macroeconomic policies here and abroad as well as policies that are specifically directed toward trade in both goods and services. I shall also discuss the relationship between both types of policies and our international trade performance.

In looking at our past trade performance it is important to realize that although particular sectors face problems that are sometimes severe, the United States has in general remained quite competitive in the world economy. This is manifested most dramatically in the recent expansion of our exports; between 1978 and 1980 total U.S. exports increased nearly 60 percent in value and more than 20 percent in volume. While agricultural exports continued to grow strongly over this period, the major source of strength was the nonagricultural component. This strength was broadly based in consumer goods, capital goods and industrial supplies. With U.S. exports increasing more rapidly than those of our main competitors, the U.S. share of world exports of manufactures rose from 17 percent in 1978 to slightly more than 20 percent in the first quarter of this year.

Furthermore, this strong expansion in our exports was not matched by a comparable increase in imports. In value terms, total U.S. merchandise imports rose by somewhat over 40 percent between 1978 and 1980, whereas the total volume declined slightly, mainly as a result of a nearly 20 percent drop in the quantity of oil imports. The decline in import volume occurred at the same time that U.S. real GNP was rising.

The strength in U.S. exports and relative weakness of imports resulted in a reduction in the deficit in the U.S. trade balance from $34 billion in 1978 to $25 billion last year. The reduction in the trade deficit occurred in the face of a rise in the price of petroleum imports of more than 200 percent, increasing our bill for imported oil to almost $80 billion in 1980. A major factor explaining these trade developments was the depreciation of the dollar that occurred between mid-1977 and late-1978. The 17 percent drop in the international value of the dollar over this period provided incentives for U.S. firms to sell more of their products in export markets and to compete more effectively with imports. Also, in 1978 and 1979 the economies of most of our major trading partners were expanding quite vigorously.

The fact that U.S. firms responded to these incentives, with a consequent improvement in our trade position, demonstrates that U.S. producers can compete effectively on world markets. This is not to deny the importance of continuing efforts both here and abroad to reduce and eliminate impediments to our exports. What our recent trade performance does indicate is that we can maintain a strong U.S. trading position without resorting to protectionist policies.

Before turning to the outlook for the U.S. trade and current accounts, it is important to note that although the U.S. merchandise trade balance has been in deficit for several years, this deficit has been partially offset, and in recent years more than fully offset, by a surplus on non-trade items. More generally, it is a remarkable feature of U.S. international transactions that service-account items constitute a large fraction of total current-account receipts and payments. Service-account receipts were 35 percent of total receipts (i.e., merchandise exports plus earnings from service exports) in 1980, the same figure as in 1977. On the payments side, the proportion is somewhat lower: in 1977 service account payments were 22 percent of total payments, and this fraction rose to 25 percent in 1980.

The largest positive component of the service account has been net investment income, which increased from about $18 billion in 1977 to nearly $33 billion last year. This substantial rise in our net earnings on foreign investment reflects both the fact that U.S. residents have been investing more abroad than foreigners have been investing in this country, and the growth in recent years in foreign earnings of U.S. oil companies.

As our surplus on services has grown and our trade deficit has declined, our current account (which includes merchandise trade, services, and transfers) has shifted from a deficit of $14 billion in 1977 and 1978 to a surplus of nearly $4 billion in 1980. In the first half of this year, the current account surplus was at an $8 billion annual rate. The surplus current-account position of the United States over the past 2½ years contrasts with that of many industrial countries—for example, continental European countries and Japan—which have had current-account deficits, some of which are continuing.

Recognition of the underlying strength of the U.S. external position, as evidenced by our current-account surplus relative to the deficits in several major foreign countries, has contributed, along with other developments, to the substantial appreciation of the dollar in foreign exchange markets this year.

In providing this background I wish to emphasize two points. First, it is important for the United States to continue to have a strong export sector that includes a broad range of domestic industries and firms. Expanding exports as a consequence of improved domestic productivity contribute to the strength of the U.S. economy and of the dollar, which in turn helps to moderate domestic inflation. Second, although particular industries certainly face strong competition from abroad, we are not faced with a crisis in our trade position or an overall deterioration in our basic international competitiveness. Our present position, which is fundamentally a healthy one, allows us to address issues of trade policy from the perspective of long-term policy goals rather than as a hasty response to a deteriorating trade and payments situation.

Turning now to the outlook for the trade and current accounts, a number of factors must be taken into consideration. First, real growth in the economies of our major industrial trading partners next year is likely to be somewhat better than this year, which will tend to have a positive impact on our trading position. A positive impact is also likely to arise as the U.S. inflation rate continues to decline, especially if it declines relative to the average inflation rate in our main trading partners. OPEC imports will probably continue to grow at a rapid rate next year, and this will provide a source of strong demand for U.S. exports, enabling them to continue to expand. Recently, U.S. exports to OPEC have been expanding at year-over-year rates of more than 25 percent. At the same time moderation in oil price increases, which seems likely, and continued reduction in import demand should hold down our oil import bill.

On the negative side, the appreciation of the dollar from the level of 1980—to the extent that it is not offset by a better inflation performance here compared with abroad—will make it more difficult for U.S. exporters to sell abroad and will provide encouragement for imports. Indeed, this impact of the appreciation appears to have started in the third quarter of this year. Another negative factor is likely to be attempts by non-oil developing countries to restrain their import demands and reduce to more manageable levesl their large current-account deficits.

The net effect of the interaction of these factors is likely to be a shift from a current-account surplus this year to a deficit in 1982. But I would emphasize that a surplus or deficit in our current transactions is the difference between two large numbers—each on the order of $350-$400 billion—and point estimates are therefore very uncertain. Moreover, a shift to a current-account deficit should not necessarily be a cause, of concern, First, it need not reflect a deterioration in the domestic determinants of U.S. competitiveness, but rather the recent strength of the dollar. Second, a U.S. deficit would match in part the OPEC surplus. While the OPEC current-account surplus is expected to decline in 1982, it will nevertheless be sizeable magnitude. This current-account surplus must be matched by corresponding deficits on the part of other countries. The developing countries will continue to run current-account deficits next year, but it would be healthy if some of them were reduced. As a consequence some industrial countries may also have deficits (as was the case for both Germany and Japan in 1980) as counterparts to the OPEC surplus. Hence it is not necessarily undesirable for the United States to have a moderate current-account deficit at the same time there is a large OPEC surplus. On the contrary, if all industrial countries attempted to achieve current-account surpluses in this situation, there would be a self-defeating decline in the volume of trade. As OPEC expenditures grow to match their earnings, their surpluses, as well as other countries' deficits, will decline.

Focusing now on economic policy and international trade, I would like first of all to underscore the importance of achieving a noninflationary but expanding domestic economy as the basic underpinning of a strong and expanding U.S. foreign trade sector. We have already made some progress in reducing the rate of inflation, but we still have a long way to go before inflation is brought down and stays down. In working toward this important national objective, the Federal Reserve has a special responsibility to restrain the expansion of money and credit. In the short run one effect of monetary restraint, in an economy where there is still considerable momentum to inflation, is to contribute to the strength of the dollar. As I mentioned earlier, the appreciation of the dollar above the level in 1980 will tend to dampen the expansion of exports and make imports more competitive with domestic substitutes.

Exports and imports of goods and services have become increasingly important in the U.S. economy, each rising from 7 percent of GNP in 1970 to 13 percent in 1980. Consequently, in making forecasts of the economy and in analyzing the effects of economic policies, it has now become essential to take account of how changes in foreign economic conditions and exchange rate developments affect our exports, imports, and other indicators of our economic well-being.

In an economy increasingly open to international influences, it is of course necessary to recognize that export and import-competing sectors of the economy will be particularly affected by monetary policy through the impact that policy has on exchange rates. However, these sectors will benefit in the longer run from the improved price performance that is the objective of monetary policy. Recent progress in reducing inflation, part of which has come about as a result of the strong dollar, would be jeopardized by any relaxation in current policy intended to aid a particular sector. Any benefit to that segment of the economy would undoubtedy be transitory and would be outweighed by the damage to our fight against inflation. We would not gain as world traders in the long run if we have a high inflation rate accompained by a depreciating dollar.

Our international trade has of course benefited considerably from the financial services provided by American banks. They have provided not only the direct financing needed for the healthy expansion of U.S. exports but have also fostered the growth of U.S. and world trade through their international lending activities.

I would note that the Federal Reserve has recently acted to enable U.S. financial institutions to provide additional international banking services and thereby provide more facilities for the financing of foreign trade. In response to the Congressional mandate in the International Banking Act, the Federal Reserve modified the rules for Edge Corporations to permit them to finance companies that are engaged in exporting and to establish domestic branches that can provide international banking services in new areas. The concrete benefits of these actions in expanding international banking services, and in particular, in facilitating the financing of U.S. exports will, of course, be observed only gradually.

It is important that other government policies contribute to improving the productivity of the U.S. economy. We need to continue our efforts to create an environment favorable to the growth of productivity and thereby both directly and indirectly and indirectly maintain a strong trading position. Reduction in the burden of government regulation would be helpful in this regard. More specifically, there are a number of government policies that probably could be amended in ways that would contribute materially to the exploitation of export opportunities by the private sector. Among the impediments that have been mentioned are the absence of clear guidelines under the Foreign Corrupt Practices Act, the reporting burden of the anti-boycott provisions of the Export Administration Act, and requirements that certain U.S. exports be shipped in American vessels.

Deregulation and other measures that improve the efficiency of the economy are the appropriate means for enhancing our competitive position in world markets. Competitiveness must be fostered not only in industries that export, but throughout our economy, and especially in sectors that may face competition from the exports of other countries in our domestic markets. What often happens is that industries protected from the winds of foreign competition do not feel it necessary to implement the the innovations or undertake the investment required to stay competitive. In certain cases—the steel industry is frequently cited--costs are allowed to rise far out of line with costs in the rest of the economy, and then protection is granted from lower-cost foreign imports.

It should also be noted that when domestic industries maintain higher prices as a result of tariffs, quotas or less formal export restraints abroad, it is not only the American consumer who suffers—the American exporter is hurt as well. Since part of the exporter's inputs are imported or consist of domestically produced goods that compete with imports, his costs of production rise when protection is granted to those sectors of the economy that compete with imports. We need to recognize that measures designed to improve one part of the balance of trade by reducing imports may well have the counterproductive effect of making our exports less competitive on world markets.

In summary, U.S. trade policy must be viewed in the context of broad U.S. economic objectives of maintaining a sustainable rate of economic growth and reducing our rate of inflation. Policies which increase the efficiency and productivity of our economy, and encourage the movement of resources into those sectors that are expanding, will help attain these objectives. Through such policies U.S. industries will be on a strong footing to compete on world markets, and will thereby make a contribution to maintaining the strength of the dollar.

Chairman GIBBONS. Thank you.

STATEMENT OF WILLIAM A. NISKANEN, MEMBER, COUNCIL OF ECONOMIC ADVISERS

Mr. NISKANEN. Mr. Chairman, members of the committee, my very brief remarks address the following topic: What significance should we attach to various imbalances in external accounts of the United States?

First, let's focus on the difference between accounting concepts and economics. The aggregate balance of payments, as a sum of all recorded items, is equal to zero. This is because double-entry booking forces an identity between debits and credits.

For economists and policymakers, however, it is not the overall balance that counts but parts of it. What parts are more important than others depends on the problem at hand.

If the focus of the analysis is the market for goods and services, the current account surplus or deficit is the relevant imbalance.

If the focus is the market for bonds and equities—more succinctly long maturity assets—the capital account is relevant. If instead, the focus is the determinants of money supply creation, changes in U.S. official reserve assets are the item of interest.

Each of these imbalances should not be considered in isolation, for they are interrelated to the same extent that the underlying markets are dependent on each other.

A current account deficit, by itself, does not connote an unfavorable or a favorable outcome. It simply suggests that the domestic demand for goods and services exceeds its supply at existing levels of domestic prices, foreign prices, real rates of interest and exchange rates.

A net inflow of capital is symptomatic of an excess supply of domestic bonds and equities over what is demanded domestically, again at existing levels of prices, interest rates and exchange rates.

An increase in foreign official dollar reserves may indicate that the world demand for dollars is outpacing the supply at existing prices, interest rates and exchange rates.

The phrase which has been emphasized each time is a point which is often neglected. Some combination of prices, interest rates and exchange rates will eliminate any of these imbalances.

Indeed, one of the advantages of the present regime of floating rates of exchange is to eliminate the above-noted imbalance in the money market.

Stated in a slightly different manner, floating rates insulate domestic monetary policy from external conditions.

Another important consideration is that floating rates reduce—but do not eliminate—the policy concern, which existed during the Bretton Woods regime, on how to finance combined current account and capital account imbalances.

This is because current and capital account imbalances tend to roughly offset each other.

Should we worry about trade deficits? In most circumstances, the answer to this question is no. To begin, a trade deficit is too narrow a definition even if we focus our analysis on the market for goods and services.

As I have already indicated, the relevant concept is the current account. A country can have large trade deficits and yet achieve equilibrium in the current account, as is the case of the United States in the recent past.

Goods are only part of what the world trades; the other part is services, which have become increasingly important for our country.

In most circumstances, it is specially important not to become exercised about the trade or current account balances relative to one specific country.

Any policy to reduce a bilateral imbalance is likely to reduce the absolute volume of trade and the level of economic well-being in all countries.

The sole exceptions to this rule involve trade with countries with an inconvertible currency or conditions for which we are prepared to restrict trade and our economic well-being for national security or foreign relations concerns.

Let us suppose, however, that we experience both an aggregate trade deficit and a current account deficit. What should we make of it? Nothing, again, if this deficit is comfortably financed by net inflows of capital.

If foreigners decide to purchase more U.S. land, more U.S. buildings, more U.S. equities and more U.S. bonds, then our country can afford to import more goods from abroad, without at the same time depreciating the value of its currency relative to other currencies.

It is a straightforward concept: There are more than goods and services in international commerce. Financial and real assets are substitutes for merchandise and services. To look at one of these products without keeping an eye on the other products is theoretically incorrect and potentially dangerous in policy formulation.

What if a sustained deficit in the current account is accompanied by a sustained depreciation of the dollar? The joint occurrence of these two events should alert those who are in charge of economic policy that the country is losing competitiveness.

Chairman **Gibbons**. Would you repeat that again?

Mr. **Niskanen**. The joint occurrence of both a sustained deficit in the current account and a sustained depreciation of the dollar is a matter of concern and should alert those who are in charge of economic policy that we are losing competitiveness.

But competitiveness cannot be regained by, say, raising tariffs or by subsidizing export industries. Such decisions would simply protect the trade-dependent industries, leading them to postpone taking the necessary steps in meeting world competition.

Policymakers can reverse the course of a depreciating currency only by restoring good monetary management at home.

Pardon me, my own copy of these remarks omitted my fifth page. I will read only my sixth, then.

Imbalances in the world setting. A final consideration should be raised in arguing the case against a partial view of the balance of payments. This stems from the proposition that current account imbalances sum to zero in the world.

It follows that not all countries can have surpluses; if each nation tried to achieve such a goal, strong deflationary forces would be set in motion.

Today OPEC countries enjoy large current account surpluses which have to be matched by some other nations' deficits. Given the dominant role of the United States in the world financial market, one need not be concerned that this country may occasionally experience current account deficits.

Thank you.

Chairman GIBBONS. Thank you, sir. We will find that page and put it in for you.

Mr. NISKANEN. I have it here, sir, if you wish me to read it.

Chairman GIBBONS. All right, sir, why don't you go ahead.

Mr. NISKANEN. Henry was helpful in that regard.

Summarizing remarks at this point, the macrosignificance of a current account deficit depends on how it is financed and at what price.

In no circumstance should one endorse policy aimed at directly promoting sectoral surpluses. The often-heard lament about large trade deficits reflects the self-interest of producers in seeking favorable trade legislation.

On the other hand, I am not condoning the practices of other countries—or those by the United States—in restricting trade. Those practices should be closely monitored and disciplined by the appropriate international bodies.

The growth of trade which is so important to world welfare requires a sustained effort against protectionist and mercantilist forces.

To further illustrate my point that the periodic concern about trade and current account imbalances is unjustified, I would like to draw the attention to the fact that there is more commerce taking place among the 50 States of the United States than between the United States and the rest of the world.

Although we—fortunately—don't collect such data, I venture to say that the interstate current account imbalances are very large. Yet they do not produce the outcry that their foreign counterparts do.

This is so in part because capital flows offset the goods and service imbalances, and in part because producers who may benefit from interstate restrictive trade practices have in most cases no authority to which to appeal.

Therefore, adjustment takes place in a rather smooth fashion.

I hope that reflects some continuity, even if out of order.

Chairman GIBBONS. Yes.

Mr. Bale.

STATEMENT OF HARVEY E. BALE, JR., ASSISTANT U.S. TRADE REPRESENTATIVE FOR INVESTMENT POLICY, OFFICE OF U.S. TRADE REPRESENTATIVE

Mr. BALE. Thank you, Mr. Chairman.

I will speak briefly about the issues of the trade and current account. U.S. trade officials, up until recently, dealt primarily with issues that concerned only the merchandise trade component of the U.S. current account. Merchandise trade transactions are no small part of the current account, since in 1980, they accounted for 65 percent of current account earnings.

Many of the major trade issues, however, with which we will be increasingly involved in the 1980's, are new issues in the sense that until now, they have received little attention from national policymakers or international trade negotiaters.

These new issues in trade policy also tend to be highly complex in nature. During the 1970's, more changes took place in the composition of the U.S. current account.

For the first time since the close of the 19th century, the United States recorded a deficit in merchandise trade in 1971.

Increasingly large deficits followed again in 1972, 1974, and 1976. Since 1977, the annual merchandise trade deficit has been between $25 and $34 billion—1981 will be no exception to this recent performance.

I have attached a table accompanying my written testimony which shows the trend in our merchandise trade balance since 1970. While the growth of U.S. exports to the European Communities pushed our trade surplus with this entity to a record level in 1980 of $17 billion, sizable and growing trade deficits with Japan and OPEC countries have kept the trade balance substantially in deficit since 1975.

Our 1981 trade deficit appears to be heading toward a level of $27 billion, and our bilateral trade position with Japan will likely reach somewhere in the neighborhood of $14 to $15 billion in deficit.

The slippage of our merchandise trade account increasingly appears to be a structural deficit; but it is also linked to other significant changes in the U.S. current account transactions.

The striking development of the 1970's has been that, while merchandise trade deficits were growing, as others have pointed out today, U.S. surpluses of net income from foreign investment were reaching very impressive proportions.

From 1970 to 1980, U.S. surplus from investment income increased more than fivefold from $6 to $33 billion. If we take a long-term view for the entire post-war period, what has happened is that the principal support for U.S. current account balance or surplus has shifted away from large surpluses in merchandise trade to large surpluses on the earnings of foreign investment, especially direct foreign investment.

The growing surplus on investment earnings raises particular questions for U.S. merchandise trade and trade policy. Large U.S. merchandise trade deficits in recent years have given rise to concerns about the vitality of U.S. trade competitiveness.

These concerns have been reinforced by the poor performance of our domestic economy in recent years.

The administration's economic policy places special emphasis on both domestic programs to improve the vitality of our domestic economy and efforts to maintain and expand foreign market access.

The question I would like to raise is this. Does even the fullest success of the administration's trade policy imply an end to U.S. merchandise deficits? Should we expect a return to an era of surplus after surplus, year after year, as the only adequate sign that we are fully competitive again in world markets?

The answers to such questions are extremely important because they influence how we perceive our own competitive position and the trade policies we should pursue.

I cannot give a definitive answer. While oil price increases have played an important role in the U.S. trade deficits, I believe that U.S. merchandise trade deficits are also related to changes in the structure of our current account.

Investment earnings are contributing increasingly large surpluses within our current account while the tendency of the current account overall is to adjust away from excessive surpluses or deficits.

It may be the case that a fully competitive U.S. economy will record some years of surplus. In such a case, the important changes which have taken place in the structure of our current account would make it inappropriate to judge our merchandise trade performance in the years to come on the criteria of the 1950's and 1960's.

There has been a tendency in the past to sharply contrast U.S. merchandise exports to U.S. foreign direct investment. The former has been directly linked to job creation and the stimulation of domestic economic activity in the United States while the latter supposedly served principally to stimulate foreign economic activity.

In contrast, other studies were developed showing a strong positive link between foreign investment and merchandise exports.

It has been shown that a substantial proportion of U.S. merchandise exports are actually transactions between U.S. and affiliated firms abroad. According to the Commerce Department, in 1977 roughly one-third of all U.S. exports were traded between U.S. companies and affiliates of U.S. companies abroad.

The trade versus investment debate has been influenced by methods of conceptualization and classification built into current account definitions and data collection methods.

We are beginning to find in the trade policy area, however, that current account data do not fully describe all U.S. international transactions nor do they do so in a manner which is always very useful to U.S. trade policymakers.

Current account data are highly aggregated and especially useful in macroeconomic and balance-of-payments analysis.

They are less useful at portraying the underlying nature of U.S. international transactions, especially in the areas of services and investment earnings.

In the trade policy area, this fact has come to the fore as increased attention has been focused on trade issues in the services sector.

While tremendous progress in the post-war period has been made in liberalizing the conditions for merchandise trade, no similar effort has been made in the area of services.

The conditions of international exchange in services such as banking, construction engineering, advertising, insurance, and data processing have never been submitted to general negotiation for liberalizing the conditions of market access.

Yet service industries account for as much as two-thirds of our domestic economic activity and employment and are increasingly important in other countries as well.

To formulate a services trade policy and pursue negotiating objectives with our trading partners, it has become increasingly important to obtain data on the foreign activities of U.S. services industries.

The only general source for this data with even a pretension of comprehensiveness has been the current account of the balance of payments.

Industry-specific and data sources other than the balance of payments suggest that the true role of service industries in U.S. international transactions is more important than that represented by balance-of-payments data.

In support of our policy planning program in the area of services, USTR recently joined with the Departments of State and Commerce in sponsoring research by Economic Consulting Services, Inc., to estimate the foreign earnings of U.S. service industries from the delivery of services abroad.

This recently completed study examined 16 major exporting service industries and estimated the total value of foreign transactions to U.S. service firms at approximately $60 billion in 1980.

This compares with the current account export value for U.S. service industries of $36.5 billion in the same year.

Earlier, I contrasted the movement of our merchandise trade balance, now in substantial deficit, to our increasing earnings from foreign investment, particularly foreign direct investment.

Our preliminary research on services data suggest that conceptually the distinction between exports and investment earnings is vague at best for many service industries and that some part of the vitality of our investment earnings are directly attributable to the foreign activities of our services industries.

It is difficult to put numbers to this. We have had no equivalent study of U.S. service industry imports and even on the export side we have data for only 1 year.

One of the major implications of this, however, is that, if the conceptual and data collection problems were sorted out, recent U.S. merchandise trade deficits may be compensated for by services trade surpluses more than has been generally realized.

Such a finding would be consistent with the increasing role of services in the U.S. economy and the strong competitiveness of many U.S. service industries.

Thank you.

[The prepared statement follows:]

STATEMENT OF HARVEY E. BALE, JR., ASSISTANT U.S. TRADE REPRESENTATIVE FOR INVESTMENT POLICY, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Mr. Chairman, I am Harvey Bale, Assistant U.S. Trade Representative for Investment Policy in the Office of the U.S. Trade Representative. I thank you and the members of this subcommittee for the opportunity to discuss the U.S. balance of trade and payments

U.S. trade officials have until recently dealt primarily with issues that concerned only the merchandise trade component of the U.S. current account. Merchandise trade transactions are, of course, no small part of U.S. current account transactions. In 1980 they accounted for 65 percent of U.S. current account earnings and 75 percent of the current account payments, if unilateral transfer payments are excluded.

There have been significant changes in the structure of the U.S. current account during the last decade. While these changes are relatively easy to describe, neither their causes nor their full implications for U.S. trade policy are completely clear. I would like to discuss with you today these important changes in the composition of our current account from a trade policy perspective.

Many of the major trade issues with which we will be inceasingly involved in the 1980's are new issues in the sense that until now they have received very little attention from national policymakers or international trade negotiators. These new issues in trade policy also tend to be highly complex in nature. In dealing with these issues, the U.S. trade policy community is forced to rely on U.S. current account data as the principal source of statistical information about U.S. nonmerchandise transactions. I would additionaly like to discuss with you the problems we face in having to rely on current account data as a basis for trade policy development in the 1930's.

COMPOSITION OF THE CURRENT ACCOUNT

During the 1970's important changes took place in the composition of the U.S. current account. For the first time since the close of the nineteenth century, the United States recorded a deficit in merchandise trade in 1971. Increasingly large deficits followed again in 1972, 1974, and 1976. Since 1977 the annual merchandise trade deficit has been between $25 and $34 billion. 1981 will be no exception to this recent performance.

Table 1 shows the trend in our merchandise trade balance since 1970. While the growth of U.S. exports to the European Communities (EC) pushed our trade surplus with the latter to a record level in 1980, sizable and growing deficits with Japan and the OPEC countries have kept the U.S. trade balance substantially in deficit since 1975. The 1981 trade deficit is heading toward a level of $27 billion, and our bilateral trade deficit with Japan will reach nearly $15 billion.

The slippage of our merchandise trade account into what increasingly appears to be a structural deficit is linked to other significant changes in U.S. current account transactions. In the first quarter century of the post-war era, the U.S. current account recorded only 3 years of deficit. The large surplus from merchandise trade, as well as net investment income, tended to more than offset U.S. foreign economic and military assistance costs as well as U.S. deficits in the area of travel, tourism and transportation.

A striking development of the 1970's has been that while merchandise trade deficits were growing, U.S. surpluses of net income from foreign investment were reaching very impressive proportions. During the 1950's and 1960's, U.S. net income from foreign investment grew from roughtly $1½ to $6 billion. From 1970 to 1980, however, U.S. surplus from investment increased more than fivefold, from $6 billion to $33 billion. If we take a long term view for the entire postwar period, what has happened is that the principal support for U.S. current account balance or surplus has shifted away from large surpluses in merchandise trade to large surpluses on the earnings of foreign investment, especially direct foreign investment. For example, in 1980 the United States recorded a deficit of $25 billion for merchandise trade but a surplus of $33 billion from investment income and, after other transactions were taken into account, an overall surplus of $3.7 billion on the current account. Table 2 presents the statistical record.

The trends the numbers represent are interesting in themselves, but the important question is why our current account has followed these trends and what is their economic significance to our domestic economy. One thing seems clear, the growth of net U.S. investment income is not a purely cyclical phenomenon but represents, in part, a long-term trend. Net earnings on foreign direct investment alone produced a surplus of $27½ billion in 1980 on gross earnings of $37.8 billion. These earnings represent a return on U.S. direct investment abroad which has been built up over decades and has now reached an investment position level of $213 billion, far exceeding the foreign direct investment position of $65 billion for nonresidents in the United States. Like an individual who saves and invests regularly over decades, the United States' foreign direct investment assets have grown and generated more income year by year. In fact, continued expansion of our overseas direct investment is, in large part, now being directly financed out of current investment earnings. In 1980 for example, new U.S. foreign direct investment totalled $20.6 billion. More than 80 percent, or $16.8 billion, of this additional direct investment was accounted for by reinvested U.S. foreign earnings, with sufficient earnings left over to pay an additional $20 billion in interest and dividends to U.S. direct investors. Such large net earnings on foreign direct investment together with our substantial and increasing net earnings from other forms of private foreign investment seem likely to be a permanent part of our balance of payments for the foreseeable future.

The growing surplus on investment earnings raises particular questions for U.S. merchandise trade and trade policy. Large U.S. merchandise trade deficits in recent years have given rise to concerns about the vitality of U.S. trade competitiveness. These concerns have been reinforced by the poor performance of our domestic economy in recent years. The Administration trade policy places special emphasis on both domestic programs to improve the vitality of our domestic economy and efforts to maintain and expand foreign market access. The question I would like to raise is this. Does even the fullest success of the administration's trade policy imply an end to U.S. merchandise deficits? Should we expect a return to an era of surplus after surplus, year after year, as the only adequate sign that we are fully competitive again in world markets? The answer to such questions are extremely important because they influence how we perceive our own competitive position and the trade policies we should pursue. I cannot give a definitive answer. While oil price increases have played an important role in the U.S. trade deficits, I believe that U.S. merchandise trade deficits are also related to changes in the structure of our current account. Investment earnings are contributing increasingly large surpluses within our current account while the tendency of the current account overall is to adjust away from excessive surpluses or deficits. It may be the case that a fully competitive U.S. economy will record some years of surplus. In such a case the important changes which have taken place in the structure of our current account would make it inappropriate to judge our merchandise trade performance in the years to come on the criteria of the 1950's and 1960's.

MAJOR TRADE ISSUES OF THE 1980'S AND THE U.S. CURRENT ACCOUNT

There has been a tendency in the past to sharply contrast U.S. merchandise exports to U.S. foreign direct investment. The former has been directly linked to job creation and the stimulation of domestic economic activity in the United States while the latter supposedly served principally to stimulate foreign economic activity. In contrast, other studies were developed showing a strong positive link between foreign investment and merchandise exports. It has been shown that a substantial proportion of U.S. merchandise exports are actually transactions between U.S. and affiliated firms abroad. According to the Commerce Department, in 1977 roughly one-third of all U.S. exports were traded between U.S. companies and affiliates of U.S. companies abroad.

The trade versus investment debate has been influenced by methods of conceptualization and classification built into current account definitions and data collection methods. We are beginning to find in the trade policy area, however, that current account data do not fully describe all U.S. international transactions nor do they do so in manner which is always very useful to U.S. trade policy makers. Current account data are highly aggregated and especially useful in macro-economic and balance-of-payments analysis. They are less useful at portraying the underlying nature of U.S. international transactions, especially in the areas of services and investment earnings. In the trade policy area this fact has come to the fore as increased attention has been focused on trade issues in the services sector.

While tremendous progress in the postwar period has been made in liberalizing the conditions for merchandise trade, no similar effort has been made in the area of services. The conditions of international exchange in services such as banking, construction engineering, advertising, insurance, and data processing have never been submitted to general negotiation for liberalizing the conditions of market access. Yet service industries account for as much as two thirds of our domestic economic activity and employment and are increasingly important in other countries as well. To formulate a services trade policy and pursue negotiating objectives with our trading partners it has become increasingly important to obtain data on the foreign activities of U.S. services industries. The only general source for this data with even a pretension of comprehensiveness has been the current account of the balance of payments.

Current account data of gross exports by U.S. service industries is valued at $36.2 billion, and net exports at $7.3 billion. These data are reported in part functionally, as fees and royalties, rather than by industry. Current account data report lower growth for service industry exports (277 percent, 1970 to 1980) than for merchandise exports (comparable rate of 427 percent).

Industry specific and various data sources other than the balance of payments suggest that the true role of service industries in U.S. international transactions is more important than that represented by balance-of-payments data. In support of our policy planning program in the area of services, USTR recently joined with the Departments of State and Commerce in sponsoring research by Economic Consulting Services, Inc. to estimate the foreign earnings of U.S. service industries from the delivery of services abroad. This recently completed study examined sixteen major exporting service industries and estimated the total value of foreign transactions to U.S. service firms at approximately $60 billion in 1980. This compares with the current account export value for U.S. service industries of $36.5 billion in the same year.

The $60 billion figure for total value of foreign revenues of U.S. service firms has resulted from two major types of adjustment. One was to take account of transactions which currently escape the balance-of-payments data collection net. Coverage of payments by unaffiliated foreign firms for services rendered by U.S. service firms is currently lacking. Because such transactions are not consistently reported to any U.S. Government agency, these payments may be missing altogether. A larger adjustment, however, derives from the fact that some transactions classified as earnings on foreign investment in current account have been attributed to service industry foreign transactions in the recent study. In this respect it is important to note that the relatively clear distinction between exports and foreign investment earnings in the merchandise area does not exist for many service industries because some services simply cannot be delivered without a foreign presence. For example, the sale of travelers' checks abroad by a U.S. financial firm requires some foreign presence. The earnings from such foreign transactions are closely associated with a broad spectrum of activity by financial organizations in the United States. Yet, nominally, the earnings on the sale of traveler's check sale may be classified as earning on foreign investment on the current account.

Earlier I contrasted the movement of our merchandise trade balance, now in substantial deficit, to our increasing earnings from foreign investment, particularly foreign direct investment. Our preliminary research on services data suggest that conceptually the distinction between exports and investment earnings is vague at best for many service industries and that some part of the vitality of our investment earnings are directly attributable to the foreign activities of our services industries. It is difficult to put numbers to this. We have had no equivalent study of U.S. service industry imports and even on the export side we have data for only one year. One of the major implications of this however is that, if the conceptual and data collection problems were sorted out, recent U.S. merchandise trade deficits may be compensated for by services trade surpluses more than has been generally realized. Such a finding would be consistent with the increasing role of services in the U.S. economy and the strong competitiveness of many U.S. service industries.

We are now studying ways that data currently collected by the U.S. Government may be better used to estimate more completely the value and sectoral distribution of U.S. service industries trade. We are additionally studying ways in which service trade data not currently collected may be obtained on a regular and cost-effective basis. Together with the State and Commerce Departments, the U.S. Trade Representative's Office has sponsored an external study on proposals for improvement in data collection on U.S. international service transactions. The value of such information would be to help us understand more fully the forces shaping the U.S. current account. This information will also be of great use as we pursue the reduction of barriers to trade in services and seek to limit the distorting effects on both merchandise and services trade of foreign investment incentives and performance requirements.

TABLE 1.—U.S. MERCHANDISE TRADE BALANCE WITH MAJOR TRADING AREAS[1]—1970–80

[Dollars in billions]

	World	Canada	EC (9)	Japan	OPEC
1970	2.6	−1.2	NA	−1.2	0.1
1971	−2.3	−1.3	NA	−3.2	−.1
1972	−6.4	−1.4	NA	−4.1	−.4
1973	.9	−1.0	0.9	−1.3	−1.7
1974	−5.3	−.6	2.5	−1.7	−11.0
1975	9.0	1.8	6.3	−1.7	−8.9
1976	−9.3	−.1	7.2	−5.3	−15.8
1977	−30.9	−1.1	4.4	−8.0	−22.9
1978	−33.8	−2.3	2.7	−11.6	−18.4
1979	−27.3	−.3	9.3	−8.6	−30.5
1980	−25.3	−1.0	17.4	−10.4	−38.2

[1] Trade balances calculated with imports valued on an f.a.s. basis.

Source: U.S. Department of Commerce.

TABLE 2.—U.S. MERCHANDISE TRADE BALANCE AND THE CURRENT ACCOUNT 1960–80

[Dollars in billions]

	Merchandise trade balance	Wet private investment income	Other private services	Other [1] transactions	Current account
1960	4.9	3.4	−0.2	−5.3	2.8
1965	5.0	5.3	0.4	−5.3	5.4
1970	2.6	6.2	0.6	−7.1	2.3
1971	−2.3	7.3	0.6	−7.0	−1.4
1972	−6.4	8.2	0.2	−7.7	−5.7
1973	0.9	12.2	0.6	−6.6	7.1
1974	−5.3	15.5	1.4	−9.5	2.1
1975	9.0	12.8	2.8	−6.3	18.3
1976	−9.3	16.0	2.9	−5.2	4.4
1977	−30.9	18.0	2.6	−3.8	−14.1
1978	−33.8	21.4	4.2	−5.9	−14.1
1979	−27.3	33.5	4.2	−9.0	1.4
1980	−25.3	32.8	7.3	−11.1	3.7

[1] Includes military transactions, government services, government receipts and payments on foreign assets and unilateral trasnfers.

Source: U.S. Department of Commerce.

Chairman GIBBONS. Mr. Dederick.

STATEMENT OF ROBERT DEDERICK, ASSISTANT SECRETARY FOR ECONOMIC AFFAIRS, DEPARTMENT OF COMMERCE

Mr. DEDERICK. Thank you, Mr. Chairman. I appreciate this opportunity to appear here today, especially in the role of cleanup hitter. At least I find it as such.

Today's panel has been asked to discuss the relationship between our balance of trade and payments and our fiscal and monetary policies.

In fact, of course, international trade policy cannot be separated from our domestic economic policy. The overriding economic goal of this administration is to increase the well-being of all Americans.

This objective can only be achieved through more jobs, higher productivity, lower inflation, and improvements in our international competitiveness.

Experience with international transactions data in the Department of Commerce goes back some 60 years. It was during Secretary Hoover's tenure that the first official report was issued on the balance of payments. The basic concern has always been simple and straightforward: to provide a statement of the sources and uses of foreign exchange.

In a strict accounting sense, the composition of our transactions with the rest of the world does not matter. Overall, international receipts and expenditures will be equal—as in all double-entry accounting systems.

However, the way we achieve balance in our international payments has important implications for our domestic economy, just as our domestic policy affects our international balances.

How we handle our external position does matter. We do not want to achieve balance through depreciation of the dollar, through protectionism, excessive interest rates, or sluggish growth, if we can avoid these approaches. Here is why.

Balancing our international accounts through dollar depreciation effectively increases the amount of resources we must export to pay for our imports.

That process takes away resources that otherwise would be available for domestic use. This, in turn, helps fuel domestic inflation, which can set in motion forces that cause still further depreciation. While the relationship between inflation and exchange rate changes is not generally understood as well as we would hope, as in most areas of economics, it is clear that the two are by no means independent.

Indeed, as Henry Wallich noted earlier this year, "The inflationary impulses emanating from a declining exchange rate are greater than had been thought."

Achieving a more favorable balance through protective measures also is undesirable. Limiting the amount of imports will tend to reduce our standard of living by restricting competition.

In addition, it is likely to trigger retaliatory actions by our trading partners.

In other words, the effects are precisely opposite to what we would desire. Interest rates, of course, play a large role in international transactions. If we achieve balance by raising interest rates in order to attract foreign capital—that is, if we find it necessary to finance an undesirably large portion of our imports through capital flows from abroad—our flexibility in setting domestic economic policy will be limited.

In addition, high interest rates discourage domestic investment and otherwise distort the allocation of resources.

Holding down the growth of the economy will constrain imports and improve the trade balance. But this is not a realistic choice for the United States, because of the hardships imposed.

We do not wish to slow our economy for balance of payments reasons.

There are better ways than these to achieve balance in our international accounts. It is more desirable to take actions that increase efficiency, lower inflation, and strengthen the U.S. economy in general. It is also important to reduce impediments to trade within the international community.

These are the means of ensuring that the dollar will be strong and stable, and that the American standard of living will improve.

It is clear, therefore, that how we balance our international accounts does matter.

This is not just a question of arithmetic. As the relative importance of trade has increased, the effects on the economy of the relative prices of exports and imports also have become more important.

From the early 1950's to the late 1960's, the ratio of the prices of exports of goods and services to the prices of imports of goods and services—called, as you know, the "terms of trade"—improved in favor of the United States.

However, as Edward Denison of the Commerce Department noted in a recent Survey of Current Business article, published by the Commerce Department, the terms of trade moved against the United States by nearly 34 percentage points from 1969 to 1980.

Almost 30 percent of the loss had occurred by 1973. Some of that can be attributed to inflation in the late 1960's and, indirectly, to the devaluations in late 1971 and early 1973.

An additional loss, over two-fifths of the 1969–80 decline, occurred in 1974 as a result of the first large petroleum price increases.

Nearly all of the remainder occurred in 1979 and 1980, when petroleum prices rose sharply again.

In the same article, Denison presents a measure of the value of the Nation's command over goods and services resulting from production.

The command over goods and services measure takes into account the effects of changes in the terms of trade on the valuation of net exports.

The deterioration we have had in the terms of trade means that the Nation has needed to export increasing quantities of goods and services for a given amount of imports.

As a result, the United States commands for domestic use a smaller share of our current production of goods and services, that is, GNP, than in earlier years.

The "command" measure reflects this difference. In numerical terms, while GNP grew at an annual rate of 2.8 percent over the 1969–80 period, command grew at a slower 2.5-percent annual rate.

This means that growth in command over our resources was about 10 percent less than the already meager growth in GNP during the 1970s.

Now, I am happy to note that during 1981, by contrast, the terms of trade for the United States have improved. This reflects the strong dollar's effect on nonoil import prices in dollar terms since the second quarter.

Accordingly, command, which you will recall reflects the material well-being of Americans, has fared better than GNP, which measures the Nation's production.

In the third quarter, command actually grew at a 1-percent annual rate, in contrast to the 0.6-percent decline in GNP as expressed in 1972 dollars.

These developments in the international sector demonstrate the importance to our domestic economy of a strong dollar.

Significantly, though, sustained strength of the dollar cannot occur unelss we achieve a sound domestic economy. The two go together. Thus, our economic policies must support vigorous productivity growth, low inflation, and free markets.

This is precisely what the administration's economic program is designed to accomplish.

Thank you very much, Mr. Chairman.

Chairman GIBBONS. Thank you. I get the impression from listening to you gentlemen that not only are you very well informed, you are extremely articulate. Let me ask you, do you all ever get together and discuss these matters other than in a hearing like this?

Mr. LELAND. I might answer that, Mr. Chairman. Definitely yes. These are gentlemen that all of us see quite frequently.

Chairman GIBBONS. How often do you all meet?

Mr. **Leland**. Pretty often. I was just at a meeting with Mr. Bale. I see Mr. Wallich all the time. They see each other. First of all, within the administration you have the Cabinet Council on Economic Affairs, which takes up these matters and discusses them fairly much on a regular basis, because obviously it reflects how the economy is doing and where we are going. We have the Cabinet Council on Commerce and Trade, which meets with the President actually, and he comes to several of the meetings. There are also both Cabinet level and sub-Cabinet level working groups. They meet constantly—I think I am on a working group—with at least two working groups for everybody on this panel to discuss the issues noted in all of these brief remarks that you have just heard, how important they are.

Chairman **Gibbons**. I want to try to summarize in a capsule, and that is always dangerous. But I get the impression from what you all say, everything is good today and the outlook is better.

Mr. **Leland**. I think that that is—I think we went through a lot of problems in the 1970's. I think that is what everyone is discussing, and the different reasons for it. One thinks that now, with the confidence in what is being done in various areas of freeing up controls and markets, and decontrol of the oil price, what has happened to oil in general, they think that is a good summation, Mr. Chairman.

Chairman **Gibbons**. Is there anybody out there that seriously disagrees with you? Do you get any feedback from other people?

Mr. **Niskanen**. I think there is some disagreement, even among friends. But not among this group. I think it is important not to look at the merchandise trade balance or current account balance by themselves as to how well we are doing?

Chairman **Gibbons**. Yes, I agree.

Mr. **Niskanen**. Characteristically, those balances improve when we are in recessions.

Chairman **Gibbons**. Yes.

Mr. **Niskanen**. We do not want to use that means to improve those balances.

Chairman **Gibbons**. It is the makeup of those balances.

Mr. **Niskanen**. It is the makeup of the balances and how they are achieved, which is much more important than their direction or magnitude. And that has led, I think, to unfortunate controversy focusing on some of these balances.

Chairman **Gibbons**. What is wrong with the makeup of our balance right now?

Mr. **Niskanen**. Well, it is less a problem of the makeup of the balance than how the balances are achieved. The makeup of the balance is satisfactory if the individual components are not distorted by trade policy either in the United States or abroad. I think in some dimensions of our economy we are more competitive than is reflected in our trade statistics because of foreign trade restraints. In some cases we may be less competitive than reflected in our trade statistics because of U.S. policy. So there are internal distortions in the composition of these balances which are in part a consequence of actions on our part, and in part on that of other countries.

Chairman **Gibbons**. If you all had the power of wishing to make it so, what would you wish that we have differently today than we have?

Mr. **Leland**. The general answer to that, then everybody, we can do it around the table, I think our basic objective is a free international trading system. I mean if we had a specific objective we could try to reach now, we feel that that would be something that we would work toward. As Mr. Niskanen just said, it is a problem as to what a lot of the trading partners do that have distorting effects on what happens. If we could have anything we wanted, it would be to open up the system so as to let the market work.

Mr. Wallich may have other comments.

Mr. **Wallich**. I certainly wouldn't disagree with that. If I could just waive a wand and wish for something, I would hope that we could have more saving in this country, private, and particularly government. As far as our discussion here is concerned, this would allow us to address more at home, increase our productivity, improve our competitiveness. It certainly would allow us to make a larger contribution to world investment. As I said, we should not be concerned about a small current account deficit under current conditions. Given the large OPEC surplus, if other countries also ran large surpluses, there might be a problem for the rest of the world. But in the long run, as a contribution to world savings, investment by the richest country in the world I think would not be amiss.

Mr. **Bale**. Mr. Chairman, I think that from our perspective we would and are seeking freer trade in agricultural products along with the services and investment issues that I mentioned, and we would think that while we agree with the comments made about the undesirability of focusing too much on bilateral balances, we would hope to see the Japanese balance narrowed some. We think that is a little bit out of line, perhaps, because of trade policy issues.

Mr. **Dederick**. May I add one point, sir? You said earlier you summarized the views of the panel that things weren't going well but they are going better and will go better.

Chairman **Gibbons**. I thought I said things were going well and in the future the outlook would be better.

Mr. **Dederick**. I would say the one thing I would like, I would like to have confidence that this indeed will happen, that we will have the better outlook that is implied. At the moment one would have to say that as in all things economic we are dealing with great uncertainties. There have been developments which are encouraging, but I would say my real wish is that these continue. That is what I would have, if I had my wish.

Mr. **Niskanen**. Mr. Chairman, I think we should recognize that in one dimension conditions have deteriorated somewhat since the Kennedy round. That probably marked the high watermark of free trade in the postwar world, and since that time, although there has been a progressive small reduction in formal tariff barriers, there has been an accumulation of nontariff barriers to trade in the form of quantitative restraints of many different types, some implemented through multilateral institutions like the multifibers agreement, any number of others through specific quotas, voluntary restraint agreements, whatever they are called, and I think that it is important to recognize that the great accomplishments and achievements of the Kennedy round are slipping away from us, in part because of the accumulation of the quantitative restraints, which in some cases we are party to, in many other cases they are being imposed by the European Community or elsewhere, and we should not, I think, relax our vigilance in trying to discipline those barriers.

Chairman **Gibbons**. I truthfully get a little disturbed or worried about the economic viability of the European nations. The European Community is an improvement over what confusion they had there before, but I am afraid that improvement has not been great enough or strong enough, and I see them slipping backward as far as their economic activity is concerned. I think they have peaked out a few years ago and are now beginning to slip. I hope I am wrong, but do any of you see it that way?

Mr. **Leland**. Mr. Chairman, I think again long-term prognoses are hard to make. The Community, I agree with you, I think has been a positive element and has helped them bring things together. Basically they have a problem which they have to work out, which is coordination of policies in general. I think, as Mr. Niskanen pointed out, in the United States a lot of things we don't worry about is because we do have a national coordination of monetary policy.

Chairman **Gibbons**. We have a common market?

Mr. **Leland**. We have a real common market.

Chairman **Gibbons**. A real common market.

Mr. **Leland**. But it is a common market not just in goods and services as they do, but it is a common market in monetary policy. It is a common market in fiscal policy and in a wide variety of areas, and I think for it to operate most effectively it is necessary for there to be that, for them to have that coordination of policy.

Insofar as that doesn't happen, it probably does make for more problems, but basically as you have pointed out it still has been an advance.

Mr. **Niskanen**. The European Community has, however, at the same time reduced barriers to trade within the European Community and increased trade barriers with respect to the rest of the world, and that is a development that we have a reason to be concerned about.

Europe, because of extraordinarily high agricultural subsidies in the European nations, is now having an agricultural surplus in Europe as a whole, which makes no economic sense whatsoever. Europe, because of weakness in their textile and apparel industries, has been pressing for stronger multifibers agreements, which have the effect primarily of discriminating against the lesser developed countries, because in both dimensions, both their very strong agricultural subsidies and their restraints on trade in textiles and apparel, the particular parties that are hurt worse by those activities are the developing countries because both agricultural exports and textile and apparel exports are of the characteristic first stage exports by developing countries. So we have reason to applaud and to reinforce the actions that have been taken within Europe to reduce trade barriers within Europe, but I think at the same time we have reason to be concerned about the consequence of the European orientation on barriers to trade outside of Europe.

Mr. **Leland**. We are hopeful that if they see the benefit of what has happened internally that they will apply it a bit more externally. As you know, we testified here yesterday on the export credit issue, and there is some advantage to dealing with them as a group, because if you get the whole group to accept it you can get movement. And I think we have to get them to accept the fact that trade barriers are bad externally to the market just as they would be bad internal to their own market.

Chairman **Gibbons**. I see that same problem developing in our Canadian relationship. I don't want to imagine things. I am not enough of an expert in our relationship with Canada to judge it, but it looks to me that while Canada is trying to solve its internal problems, it is doing so at the expense of worsening its external problems. Is that a fair assumption?

Mr. **Leland**. That is a more difficult question, because it involves more than just trade. I mean basically it would be our belief that they are not solving—if we are talking particularly about the national energy policy and the investment review authority, it is our view that they are not really solving their problems, that these are things which are really hurting them, just as we feel that the tariffs, the barriers put up by the Community are hurting them. And we carry on a dialog with Canada, which is our closest neighbor and major trading partner, to try to point those factors out, that they distort things by some of these policies they are putting through. We have been working on that, and I must say that it is not a unanimity in Canada, about what they are doing. They are saying they are solving their problems, but there is a large opinion in Canada that they are not solving their problems.

Mr. **Niskanen**. Any nation has a right to do something dumb and all of us occasionally exercise that right. I think it is most important that we not respond to actions by the Canadian Government in a way which shoots ourself in the foot, and that we not take dumb actions in the United States in narrow response to actions which are——

Chairman **Gibbons**. I agree with you.

Mr. **Niskanen** [continuing]. Which are done abroad.

Chairman **Gibbons**. I agree with you.

Mr. Frenzel?

Mr. **Frenzel**. Thank you, Mr. Chairman. I want to thank the panel for its testimony. I am sorry that I missed hearing some of it. I have had a chance to read it.

Mr. Niskanen, on page 6 of your testimony it seems to me that in the second to last line there is a typo there.

Mr. **Niskanen**. That is correct.

Mr. **Frenzel**. I think the word is "concern."

Mr. **Niskanen**. Concern.

Mr. **Frenzel**. Thank you.

Governor Wallich, is the dollar priced about right with European currencies today do you think?

Mr. **Wallich**. Nobody can be very sure about what is the right exchange rate. We have seen wider fluctuations than would be comfortable, but there is no way of saying that a particular rate is the right one. We have got different forces playing on the rate, the interest rate differential, the move into current account surplus first and then subsequently the expectation of a deficit for the U.S. current account, the improvement in our inflation rate prospects, all these things work on the exchange rate. Purchasing power parity is not a very good guide anymore, certainly has not been recently. What is important is that these basic factors be allowed to come through and that rate be allowed to move in response to fundamentals rather than be distorted by whatever kind of an action might be used there.

Mr. **Frenzel**. I would agree with that. However, I am a great proponent of the purchasing power theory, and up until this year it has had a good deal to do with one's buying a home. Nowadays it looks like the inverse is true. That would lead me to believe that the interest rates in the United States have forced the relationship into a kind of an artificial state. Is that a wrong conclusion?

Mr. **Wallich**. Interest rates certainly have had something to do with it, perhaps much to do with it, but it is fairly clear that they haven't been the sole factor. The interest rate differential presumably is what is more relevant here. Now that differential kept rising until about the end of 1980, and the dollar kept rising. Then foreign interest rates began to pick up, and the differential stabilized and eventually came down, but for a while the dollar continued to rise. There must have been other variables at play as well.

I would not underestimate the importance of interest rates. It is just that the seeming appearance that one has when looking at the market may be misleading. Whenever the market moves one way or the other, it is accompanied by a statement that it was in response to interest rate changes in the United States. I think that is an exaggeration.

Mr. **Leland**. I would like to add to that. There were times when the dollar was dropping and we had a high interest rate differential also. Our interest rates were higher than the Europeans and the dollar still dropped. I think as Governor Wallich said, you can overemphasize the influence of interest rates. A lot of other things were going on both here and abroad that would account for the strength of the dollar, and not just interest rate. I think interest rates will be coming down, and I don't think you will see that precipitous drop in the dollar because of it. I think there were a lot of factors going on domestically that affected the strength of the dollar that will continue to do it. I think one can't forget, Mr. Dederick dealt with it very well I thought in his statement, the fact is a strong dollar increases our purchasing power, so the fact that you are buying things abroad, you are also benefiting everybody's standard of living by that fact. They are buying things less expensively and we are getting more products because of the strength of the dollar.

Also, in light of what he was talking about, that Governor Wallich was talking about, the domestic effects on the dollar, you also have to be looking at what is happening abroad that may also affect the dollar. Their own policies, their own economy, oil prices and how it affects them, the fact that we reduced substantially our imports of oil over a period of time, the price of oil, all of these are other factors that would have to be put into it. One can't simply assume that interest rates going up is going to mean that the dollar will continually get stronger, and that interest rates going down means the dollar is getting weaker. A lot of other factors in the economy have to be taken into account.

Mr. Frenzel. I don't disagree with that statement at all. I am just wondering why the relationship changes. I assume that it has something to do with the difference between the interest rate and the rate of inflation.

Mr. Leland. It could also mean that one was following a monetary policy that everybody had been saying we should be following for ages and we are really following it, which was a low and steady money growth, so people really had confidence in your policy and strengthened it. That low and steady monetary growth may have had a side effect on interest rates but that was the side effect. The basic things were being dealt with and that strengthened the confidence in the dollar.

Mr. Frenzel. The interest rate primes are down to about 4 percent from their peaks of August. What has been the action of the dollar versus the yen, which really bothers me? I have the feeling that the dollar is overvalued versus the yen. Has that relationship declined?

Mr. Wallich. Well, you can say with respect to the yen first that it shows the effects of a strong balance of payments performance. The Japanese have moved from their current account deficit into surplus, and that in the face of their notably low-interest rates has enabled them to have much less of a drop in their exchange rate relative to the dollar than have had European countries.

Now it is certainly true that the interest rate differential, which is particularly strong with respect to the yen, must put some pressure on the yen. I would say also that the natural course of events, with Japan developing strong exports of industrial products with respect to the EC and the United States, that that in the course of time is likely to be reflected in the exchange rate. A country can't become indefinitely more competitive under a floating rate system. There is a built-in mechanism that will tend to bring an adjustment.

Mr. Leland. I would like to add to that Japan is a good example of the fact that they have consistently had a low-interest rate throughout this whole period, and if you look from July 1980 to date, the Japanese yen against the dollar, the dollar has only appreciated against the yen by less than 7 percent, when against other currencies it has been anywhere up to—against the French franc it has been 42 percent, and they have brought up their interest rate. Even against the German mark it has been 32 percent, so if it were just interest rates you would have seen the Japanese yen dropping even more precipitously. It was the other factors, as Governor Wallich pointed out, that made a difference.

You are also correct, however, that as interest rates have been coming down, the value of the other currencies has to some degree been also going up.

Mr. Frenzel. It is my personal opinion that currency exchange rates and tax systems have far greater effect on trade between countries than GATT regulations and other treaties. Does the panel feel that the float is relatively free? Is it satisfactorily insulated from perverse influences?

Mr. **Leland**. You mean as to exchange rates?

Mr. **Frenzel**. Yes.

Mr. **Leland**. Basically, yes. I think obviously the Europeans, because of a certain attitude toward trade do a lot of intervention, which is their choice to make, and we don't, but at the same time there is basically at the moment in that area a free market, and we watch the movement of the market. As you said, as interest rates have come down since August of 1981, and against substantial trading partners like the German mark, the dollar in that period has gone down about 10 percent, so there is a free flow.

Mr. **Frenzel**. Thank you. What is the Federal Reserve and the Treasury's estimate of our current account at the end of this year and for the coming year?

Mr. **Wallich**. Well, for 1981 we will have a moderate surplus as far as one can see of a few billion. It is not yet completely in the bag.

Mr. **Frenzel**. But you assume that it will be less than the $8 billion as of the end of August or whenever it was.

Mr. **Wallich**. It could be in that range. It could be less. There is enough margin there. Now for next year I suppose this depends on our respective views on the strength of the American economy. The stronger you think it will be, the more of a deficit is likely.

Mr. **Frenzel**. What do you think the current account will be at the end of 1982? Pretend you are on Lou Rukeyser's panel and you have to make a guess. What do you think it will be at the end of next year?

Mr. **Wallich**. That is in the fourth quarter of 1982?

Mr. **Frenzel**. For the year; yes.

Mr. **Wallich**. Oh, for the whole year.

Mr. **Frenzel**. For the whole year.

Mr. **Wallich**. It really is a guess and not a useful projection, but I could see a deficit in the range of $10 billion plus.

Mr. **Frenzel**. Thank you.

Secretary Leland?

Mr. **Leland**. Basically as I said in the comments, we see the current account surplus being in the range that Governor Wallich talked about. It is very hard to project what it is going to be for 1982, because so much is dependent upon the growth rate. I mean it was when the tax cuts took effect, how they are going to take effect, what is going to happen. All of that has such an impact that I would have no reason to disagree with that estimate, but I am sure Governor Wallich would agree it really will depend on what the growth rate is going to be before you can give the answer to that question.

Mr. **Frenzel**. There are many variables. Predicting is always a tough game. Mr. Chairman, I want to thank Secretary Leland. I don't know whether he slept here the last couple of nights or not, but he puts in a lot of time here, and I want to thank the whole panel for all of their work.

Chairman **Gibbons**. It has been very productive as far as I am concerned. Let me ask the panel now about some legislative policy. Four of you represent the administration, and as I understand it the administration supports the export trading company legislation proposal Mr. Wallich, how does the Federal Reserve Board feel about the export trading company legislation?

Mr. WALLICH. Export trading companies as such have greater merit. They do in Japan, although on a diminishing scale of late. The problem is whether they should be owned by banks. Now we have a belief in the separation of banking and commerce, and so our position has been that the role of banks should be limited in trading companies. One way of limiting it would be to keep the percentage of a trading company's capital that can be owned by a given bank to less than 20 percent, because at 20 percent a certain form of bookkeeping technique goes into effect that combines the profits of the trading company and the bank, and may pose a temptation to the bank to make its trading company do excessively risky things. Also, we would like to see the bank's share in one trading company or all trading companies together, if there are several, limited to 5 percent of its capital.

Now one could visualize special situations, special purposes, where one could modify some of these limits, but they would have to be specified.

Mr. FRENZEL. Where does the banking community stand on this legislation? Do you all know?

Mr. LELAND. As you know, the administration supports the Senate-passed bill.

Mr. FRENZEL. Yes.

Mr. LELAND. It feels that with the safeguards this would be effective so far as I would understand. I think the banking community would support this type of move.

Mr. FRENZEL. Do we know why it is being held up in these other committees?

Mr. LELAND. We have been working with the House on this area, Mr. Chairman, to move this through, because it is something the administration definitely supports. It feels, as we said, with the proper safeguards and with certain controls of the regulatory agencies if over a certain size and so forth that this would be a very effective impetus to exports, and hopefully it will move through.

Mr. FRENZEL. One of the things that impressed me in my recent visit to Japan, and in other visits, has been the fact that they seem to have, as far as their own objectives are concerned, a better banking system than we have. Now that may be just a matter of my own imagination. I hasten to say I am not an expert in our banking system or in the Japanese banking system, but I look at the results of the Japanese banking system, which has made it possible for Japanese companies to think of the world as being the market for those companies. The Japanese banking system has made it possible for people to think in terms of 8 percent for a mortgage rate loan on their homes. What have the Japanese got in their banking system that we don't have?

Mr. WALLICH. The Japanese certainly have a different banking system than ours, much more tightly controlled and much more deeply involved with business, with industry. I don't think that is something we could imitate. It just isn't in the spirit of our country. But as to the low rate on mortgages, I would say two things. One is that the interest rate, especially on mortgages, is of course very much dependent on inflation, and they have done a good job in keeping inflation down. They are getting the benefits of that in terms of low interest rates.

Second, I would say that, taken as a whole, housing finance in Japan has of course been incomparably smaller, less important, and in that sense less satisfactory to the Japanese people than housing finance has been in this country, which has made this a Nation of homeowners the like of which there isn't anywhere else.

Mr. **Niskanen**. Mr. Gibbons, I think it is important to distinguish between their monetary policy and their banking system. Their monetary policy for the most part in recent years has led to much lower inflation rates than that of the United States. That, I think, does not reflect one way or the other on their banking system itself. My judgment is that if they opened up their banking system to permit greater entry of foreign banking, including by U.S. banks, there would be a major increase in the foreign banking activity in Japan, which reflects the aggressiveness and competitiveness of American banks. I think our banking system would look very good if it had an opportunity for entry into the Japanese markets.

I think we have reason to praise their monetary policy and performance. I think we have much less reason to emulate this banking system.

Chairman **Gibbons**. How has their monetary policy differed from ours?

Mr. **Niskanen**. They have had very much lower money growth. It is as simple as that. I think behind that has been a difference in their political system in that they have had predominantly one party rule now for [illegible]0 years, and there doesn't seem to be the kind of partisan political competition which I think has led to an incentive in the United States to inflate one's way out of current domestic problems.

Mr. **Wallich**. I feel compelled to say something about that.

Chairman **Gibbons**. I figured we would get a discussion.

Mr. **Wallich**. It has been very good, but you do know they don't have a money supply target. They do things by credit control, a system that is not a desirable one I think, for our economy. It works in Japan. They do it by interest rate controls, again, something that we do not welcome. In fact, they often say that they would like to make their markets more competitive, having freer movements in interest rates, but so far it has been a rather tightly controlled system in which the focus of control is bank credit.

Mr. **Leland**. I would just like to add to that. It is difficult; one doesn't want to take away from what Japanese have succeeded in doing, and I think it is largely due to the fact that a lot of the political factors that might have been present elsewhere haven't been present.

At the time of the oil shocks, which were in a sense more severe for Japan because of their dependence on imported oil, they were able to contract their economy and to really accept the tightening of the belt that was needed in order to accommodate for it. It would be more difficult in other places.

I think, in general though, it is fair, as Governor Wallich said, to look finally at the overall economy. In housing we have the private homeowner, and they basically don't. They can accept certain growth rates that are different. They can accept certain rewards to the individual that are slightly different in that economy. I think, for example, they can run one-third of their budget in deficit and finance it from private savings. There is a lot in Japan that you couldn't try to simply copy here.

Chairman GIBBONS. I keep hearing, if we can only balance this budget we are all going to be saved and we can all fly off into the future. Yet, I look at the Japanese with their horrendous imbalance and say, you know, why do we keep worshiping at the shrine of the balanced budget when the Japanese don't?

Mr. LELAND. I don't think everybody worships at that shrine, Mr. Chairman.

Chairman GIBBONS. I get the impression everybody does.

Mr. LELAND. It is very true that, if you have, as Mr. Niskanen pointed out, low money growth and a lot of other policies one is trying to follow, just having your eye on the deficit may be the wrong place to look, because, as you say, if you look at Japan they run an enormous deficit and manage to finance it from savings.

If Governor Wallich could get his wish, then it wouldn't matter. The deficit would not matter the way people are making it matter now.

Mr. WALLICH. Well, it is their high saving rate, of course, that makes it possible to finance this deficit. One has to measure the size of a government deficit not so much in terms of what percentage of the budget it is, or even what percent of GNP, but what percent of the savings available in the country. The Government takes something like 40 or 50 percent of net savings. In Japan I think that is a much lower number.

Mr. DEDERICK. May I just add, as a former banker—and I feel compelled to say something here—I think the basic message which my colleagues are giving is the one that I would give—that one simply cannot compare the United States and Japan in any simple way. They have entirely different cultures with entirely different social systems. The institutional structures are different. What is right for the Japanese as they see it, is fine, but what is right for us can be something entirely different, depending upon our social system, our set of structures, our needs and our problems.

I don't think one can make a comparison with Japan and easily transfer it over here. Unfortunately, it is a very complicated subject in both cases, so I don't gain many lessons from the Japanese experience. I think we have to gain lessons from our own experience.

Chairman GIBBONS. Well, I couldn't disagree with you. They are far different people than we are. We seem to interpret everybody by the tape recorders and the TV sets and automobiles they make, and don't realize that there is a lot of difference in the way we live and the way we think.

Why is our savings rate so low?

Mr. WALLICH. It is low Mr. Chairman, first, because that seems to have been a national habit for many, many years. It is not new, but in recent years the rate of savings has indeed deteriorated.

Second, with what we are doing for ourselves, to ourselves, is always to subsidize the borrower and to penalize the lender, the saver. We do that through the tax system, for instance; interest on consumer loans and mortgages is fully deductible. That isn't the case in most countries abroad, and we allow now the whole inflation premium in the interest rate to be deducted. Inflation premiums are really the economic equivalent of debt amortization. So we are in effect allowing that part of debt amortization to be tax deductible. That was never the intention of the legislature. But this is the private side.

Now, on top of that, we have a government that makes very heavy claims on these very limited private savings. The Government could make up by not drawing on the Nation's savings, but then we come back to the concept you seem to feel unsure about, whether we should worship it; namely, the balanced budget.

I would say that what the Government should do is run a surplus and add to the Nation's available savings. I know this couldn't be done today or tomorrow, but as a long run structural feature it would be very good. We had that during the 1920's. That was a period of rapid expansion.

Mr. **Leland**. I would just like to add that the same problem of looking at different systems—the Japanese, for a long time, even to a degree now, had no social security system. The necessity to save for your old age was there. It was all to do with the social structure. It was done by the family and by the individual, and even to some degree now there is a dependence upon that, for your old age, whereas in America and other countries, there has gotten to be a reliance on the savings that was being done for them by the social security system. So a lot of these factors which we may think in our system are preferable, they are now starting to emulate it, go into the equation.

Chairman **Gibbons**. Well, I really think we have probably worshipped at the shrine of the social security system so long that we really believe it is a saving system. It is not a savings system, is it?

Mr. **Leland**. No, that is the problem with it, it isn't. But for the individual, it takes the place of a savings system that in another society would force them to save and reach that same objective.

Chairman **Gibbons**. So that to the extent we substitute a social security system for a savings system we have really penalized——

Mr. **Leland**. Depending on how you finance and what you do with that social security system, that is certainly true.

Mr. **Niskanen**. I think there is another reason for low savings in the United States. We tax savings twice. We tax savings for the most part when the income is earned, and then we tax the income from the savings when that comes in. I think if we moved away from an income tax in the direction of a consumption tax, by permitting deduction of savings at the time they are made so that the relevant tax base could be the difference between your income minus your identifiable savings, we would find a much greater level of savings in the United States.

Mr. **Leland**. The tax bill, as you know, Mr. Chairman, was to some degree designed to do that. As you brought down the highest rates and even the marginal rates, the incentive to save should go up.

Mr. **Niskanen**. A lot of what we unfortunately call tax expenditures I think are better recognized as partial accommodations toward a more reasonable tax system. We do give a number of partial accommodations toward savings in the form of IRAs and Keoghs and so forth, and I think that those should not be regarded as tax expenditures, but as movements in the direction of a more rational tax system, which would have fewer biases toward savings.

Chairman GIBBONS. I didn't want to get off on this subject, but I am going to ask it anyway. Are the savings incentives we now have in place in law sufficient to handle the need for a country that uses as much capital as we do?

Mr. NISKANEN. The question of sufficiency I think will ultimately be decided by people in terms of how well they want to live at the moment relative to their future or their children's future. I think that the primary role that the Federal Government can take is to assure that the tax system does not bias that choice—the tax system or the social security system does not bias that choice, which it has in a dramatic way in the last 30 to 40 years.

Mr. LELAND. The other factor is that it can try not to take so much of the savings for its own purposes and deficits, so that those savings are available for more productive purposes.

Chairman GIBBONS. I don't know where the Treasury is going to get all the money next year. It looks like there is going to be an awful rush of who gets there first. I wish I saw the interest rates coming down a lot.

Mr. LELAND. They are starting to come down.

Chairman GIBBONS. I know, but I remember when everybody thought 10 percent was bad.

Mr. NISKANEN. Mr. Gibbons, I think it is important to recognize that the relative constraint on borrowing by the Federal Government is not the totals savings generated within the United States, but the total savings generated in the world, in that if we ran zero public sector deficits and the other nations continued to run high public sector deficits, we should expect to have a continuation of high real interest rates, and that a reduction of public sector deficits will not help us very much unless there is a corresponding reduction in public sector deficits abroad.

Chairman GIBBONS. That is a good point.

Mr. Frenzel.

Mr. FRENZEL. Yes.

Secretary Leland, in your paper you said that—which I didn't hear you read—you said that you were basically not thrilled about intervening, and you repeated that again. What has been your intervention this year that you are able to tell us about?

Mr. LELAND. Well, our intervention this year, since we formulated a new intervention policy, has been minimal. It was $79 million the day the President was shot. That was basically it. We are there, it is a policy we have set to intervene only in unusual circumstances. We have the resources which we still have, foreign currencies which the Fed holds for us available to intervene.

We have not, except for that instance, seen the necessity for intervention. We are always ready, and that we have told all of our trading partners—we meet with the finance ministers from the major countries and have told the other countries that we are, as the Secretary puts it, at the other end of the telephone. And in the event that there was need for it, one can do it. But we basically feel that the free market is the best way of knowing what the proper rate should be, and that intervention basically is not the way to do it.

Mr. **Wallich**. Of course, our intervention is not really decisive in any way because the whole rest of the world intervenes in dollars. The Germans, the French, the British—they all hold large amounts of dollars—and they can intervene as they wish. The question, therefore, is more who does it than whether or not it is done, and we, by pursuing our present policy, are giving them broader scope, and we are ourselves avoiding the need to act in the market.

Mr. **Frenzel**. It is a policy I think we would endorse here, except that I am glad to know that at least we are prepared for such emergencies as you cited, in case we do have to intervene.

In your statement here you indicate a $30 billion statistical discrepancy in the BOP statement. Did you dwell on this in your statement?

Mr. **Leland**. To some extent. It is one that one spends a lot of time dealing with. I mean, obviously it is considered to be the inaccuracies or impossibility of fully, accurately measuring capital flows.

Mr. **Frenzel**. Does it come in in suitcases or what?

Mr. **Leland**. It can come in in a variety of fashions. I suppose some of it might come in in suitcases, but basically we have also had the reverse. When the dollar is depreciating we have had errors in the same way and that has been an outflow. The assumption is that there are capital transfers that you simply cannot record.

Mr. **Frenzel**. How do you know the amount if you don't know what is coming in?

Mr. **Leland**. Because the accounts have to balance, as Mr. Niskanen pointed out in his statement. In the end you have got to have a balance of what goes in and what comes out. When you measure that, we have got a $30 billion discrepancy, which, as I said, is presumed to be capital flows. It is, on the size of the market we are dealing with and our multi-trillion-dollar domestic market and so forth, not an enormous statistical discrepancy, but one we are always, together with the Commerce Department, et cetera, trying to reduce.

Mr. **Frenzel**. Do you need more laws or regulations so that you can keep track of this junk?

Mr. **Leland**. To this date, as I said, it is something always under study. We feel the amount is not one that becomes troubling as to what policy decisions you might or not make, and that possibly the cost of trying to be more accurate would be excessive for what we would accomplish by being more accurate.

Mr. **Frenzel**. You have records then, of $135 billion of inflow?

Mr. **Leland**. I think that is inflow and outflow. That is a record of the combination of transactions. Yes. The assumption is on the trade inflows and outflows, we can be fairly accurate. On certain kinds of payments and so forth, it is a lot harder to make a record.

Maybe Mr. Wallich wants to comment on that issue.

Mr. **Frenzel**. I would be glad to have somebody else——

Mr. **Leland**. The Fed has a big responsibility for that and we all try to work on it.

Mr. **Frenzel**. Let's hear from the Fed, then. Is it a good idea to have $30 billion we don't know about?

Mr. **Wallich**. Since you asked, Congressman Frenzel, in my judgment, we don't need any more laws and regulations. Now there is some reason to think that some part of that particular item had to do with borrowings of American corporations from banks abroad which ought to be reported and ought to be made clear.

But, to the extent that these are flows that don't go through the American banking system, they are harder to catch. I think the main thing is not so much that we know every last dollar that moves, but that we conduct a policy that will cause the dollars, whether we know how they move or don't know how they move, to move in a constructive direction.

Mr. **Frenzel**. Well, I am not thrilled about having new laws or regulations, either. But if those are borrowings by Americans abroad, don't we have to find out about them some way or another if they come into this country?

They have got to be repatriated, don't they?

Mr. **Wallich**. We have a very large balance of payments. It is helpful to have as much information as one can, and if the information can be produced without making everybody take out a license to perform a transaction, that would be useful.

But if it meant tying up international transactions in more and more redtape, I would view that with some concern. But I don't think that is the issue here.

Secretary Leland is as concerned as I am to improve our data and improve our information. But we are not thinking in terms of a licensing system that would control international flows in any way.

Mr. **Leland**. The constraints on the market would not be worth the extra information we would gather, I think is the basic opinion.

Mr. **Frenzel**. I am not anxious to have constraints, either. But $30 billion of a total flow, $30 billion inflow but total flow of $135 billion, is a lot of money.

Haven't you circled it at all?

Mr. **Leland**. We have certainly circled it and it is certainly something one works on. As I would understand it, most countries have this problem on capital flows in trying to keep their records.

It is a matter of how far you want to go in controlling your market to such a degree to get that added information, and when you have the information, how much you need that information to make your policy decisions.

Mr. **Niskanen**. Mr. Frenzel, the thrust of my remarks is that most of our policy decisions can be made without precise counts of the different balances of payments. And that we can look at information that is generated as part of normal business activity, including the foreign exchange markets, to address most of our trade and domestic monetary issues.

In some sense, this may be heretical in this crowd, I wish the balance-of-payments data did not exist.

Chairman **Gibbons**. We could get rid of the cost of living at the same time.

Mr. **Niskanen**. Maybe so, sir, in the sense that I think in some cases, the existence of such data has reinforced bad policy, rather than contributed to good policy information. As I said in my remarks, I feel we are quite fortunate that we do not have balance-of-payment data internal to the United States, because it would cause every Governor and legislator to pay wholly inappropriate attention to these interstate flows.

Mr. **Frenzel**. I have news for you. They already do. They are out there selling industrial revenue bonds like they were going out of style.

Well, if the Treasury has any information or speculation on the kinds of transactions that make up the $30 billion, I would appreciate having it provided for the record, Mr. Chairman.

Mr. **Leland**. We will do that, Mr. Congressman.

[The following was subsequently received:]

SOURCES AND COMPOSITION OF STATISTICAL DISCREPANCY IN U.S. BALANCE OF PAYMENTS ACCOUNTS

By convention, balance of payments statistics are presented in a double-entry bookkeeping format in which conceptually every transaction involved should be reflected in two equal and offsetting entries. One is counted as a credit (+) and the other as a debit (−), so that the net balance of all entries should be zero. For example, an export is reported as a credit, balanced by a capital-account debit (such as a reduction in foreign-held dollar balances).

In practice, U.S. statistics for the two entries involved in any given international transaction are compiled or estimated from different statistical sources. For example, merchandise shipments come from customs documents, but changes in foreigners' bank balances come from reports filed by banks under the Treasury International Capital reporting system, and trade credits partly from these bank reports and a variety of other sources. There are a wide variety of reports and estimates for other capital flows and service transactions. To the extent that various kinds of transactions are only partially or erroneously reported (with one of what should be two offsetting entries either missing or reported with different valuation or timing) then the total of all entries in the balance of payments accounts will not sum to zero, but would instead show a residual net credit or net debit. To offset that, a Statistical Discrepancy entry is shown separately in these balance of payments accounts as a balancing item. This statistical discrepancy is commonly referred to as "Errors and Omissions".

There is no possible way of knowing the total amount, sources or composition of gross errors and omissions on the credit and the debit sides of these accounts that lie behind the net statistical Discrepancy. Many of the likely causes for errors and omissions in the reporting and estimation of current-account transactions stem from institutional situations and procedures which logically should tend to change only gradually over time, rather than shifting sharply in size and direction from one year or quarter to another. In addition we are fairly confident about the merchandise trade statistics, since they come from a comprehensive set of customs documentation.

For these and other reasons, it is widely believed by balance of payments technicians that the large size and volatile behavior of the Statistical Discrepancy shown in our published accounts are attributable mainly to unrecorded capital flows. There have frequently been large quarterly changes in the statistical discrepancy, and from year to year the discrepancy has changed sign as well (shifting, for instance, from an "outflow" of $2 billion in 1977 to "inflows" ranging from $11 to $30 billion in 1978–1980). In some instances, large quarterly movements in the discrepancy have coincided with exchange-market disturbances, suggesting they may reflect volatile short-term capital flows.

There are also areas in the capital account where the development and spread of seemingly minor innovations in banks' operating procedures can, on the basis of existing bookkeeping practices and statistical-reporting instructions, create ambiguities leading to inadvertent nonreporting of sometimes sizable transactions. One recently-identified instance of this is the practice of corporations borrowing from banks on an "optional pricing" basis, which may involve the loan being routinely shifted between banking offices in this country and ones located abroad, depending on the relative advantages of U.S. and Euro-dollar interest rates. Employees of the corporation and bank involved are often not clear whether it is a foreign or domestic transaction on any given day, or who has the responsibility for any balance-of-payments reporting. The Treasury Department is currently revising its reporting instructions to banks and borrowers, to clarify reporting responsibilities with respect to this kind of transaction.

The Treasury Department participates actively in the Interagency Committee on Balance of Payments Statistics, which is investigating how the statistics can be improved to reduce as much as possible the Statistical Discrepancy. This committee, under the auspices of the Office of Management and Budget, includes representatives from other Executive Branch agencies and the Board of Governors of the Federal Reserve System.

Chairman GIBBONS. Let me go to page 9, Mr. Bale, of your statement, end of the first paragraph.

> This recently completed study examined 16 major exporting service industries and estimated the total value of foreign transactions to U.S. service firms at approximately $60 billion in 1980. This compares with the current account exports value for U.S. service industries of $36.5 billion in the same year.

Would you explain to me the significance of that statement?

Mr. BALE. Mr. Chairman, the point of that was to indicate that our accounting procedures in the balance of payments data collection process, according to this study, count a number of transactions by U.S. service firms abroad as investment income, rather than service transactions.

For example, a sale of traveler's checks abroad, say, by American Express or some other banking institution, show up in the earnings on investment, rather than as a service transaction.

The purpose of the study was to identify for 1 year's data the full extent possible for those sectors, the activities of those sectors in the service area, rather than the earnings area.

So the estimate here is an estimate of service transactions on the order of $60 billion, rather than looking at it as earnings on investment income.

What the ECS study shows is that there is an understatement of the service component of the balance of payments, and something of an overstatement on the investment earnings, as well as some transactions which appear in the study do not get counted at all.

Chairman GIBBONS. Is that important as far as policymaking decisions are concerned in our Government?

Mr. BALE. If we are going to identify, in the trade policy program, services as an area of activity, and certainly the service sectors of this country are very much interested in barriers to their activities abroad, the acquisition of accurate data is appropriate and, we think, necessary for policymaking in this area.

Chairman GIBBONS. I want to thank this panel and, of course, all the other panels that have appeared before us for what they have contributed to our understanding of the problems and our view of them.

With the close of business today, we are concluding the first phase of our oversight hearings of U.S. trade policy. We will hold another day of hearings with the administration on U.S. import laws.

Following that, we will have testimony from the private sector on the whole range of trade issues. Dates for these future hearings will have to be announced as soon as we can obtain permission from the full committee to sit and give, of course, adequate opportunity for witnesses to prepare their statements and to appear.

In conclusion, I would like to say, I think that this has been a very useful legislative exercise, certainly for the Chairman, and I believe for the trade staff and some of the members of our committee.

I hope it's been equally useful to the members of the administration and to the members of the public. I want to say I am very pleased with the hearings to date.

Thank you very much.

[Whereupon, at 12:53 p.m., the subcommittee was adjourned, to reconvene at the call of the Chair.]

U.S. TRADE POLICY

THURSDAY, NOVEMBER 12, 1981

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, D.C.

The subcommittee met at 9:30 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

Chairman Gibbons. Good morning.

The Subcommittee on Trade of the Ways and Means Committee will come to order.

We are pleased today to be finishing the administration's testimony in our oversight hearings.

After today's testimony, it is the intention of the committee to ask for witnesses from the public sector, hoping that all people that have a vital interest in trade, those who are around knocking on our door asking us to do things about barriers to trade, will take an opportunity to come out here in public and state a position.

We hope to have extensive hearings from the private sector commenting upon the administration's philosophy and its administration of our trade laws and making suggestions as to how these trade laws can be improved.

We have today with us a distinguished panel: Mr. Gary Horlick, Deputy Assistant Secretary for Import Administration of the Department of Commerce; Chairman Bill Alberger of the U.S. International Trade Commission, who is speaking today on his own behalf, not on behalf of his fellow commissioners; and Mr Donald deKieffer, the General Counsel of the U.S. Trade Representative's Office.

They are going to talk about antidumping and countervailing duty laws, and then we will have another panel who will talk about import relief laws.

The first listed witness is Mr. Gary Horlick. Mr. Horlick, you may proceed as you wish.

STATEMENT OF GARY HORLICK, DEPUTY ASSISTANT SECRETARY FOR IMPORT ADMINISTRATION, DEPARTMENT OF COMMERCE

Mr. Horlick. It is an honor to appear before you for our oversight hearings.

I would like to briefly summarize from my statement, which you have, I believe, what Congress has done to implement the spirit as well as the text of the new requirements of the trade laws of 1979.

I am pleased to be able to tell you that higher standards for administering the dumping/countervailing duty laws are being met.

I would like to acknowledge a debt to my predecessor, John Greenwald, who did an outstanding job in managing the transfer from Treasury to Commerce, and putting the Office of Import Administration on a path to full implementation of the changes that you wanted effected in 1979.

Let me give you a few examples. In all dumping investigations, the pricing practices of the foreign producers are being verified, both in the foreign market and the United States.

In all countevailing duty proceedings, we are thoroughly examining Government incentives and verifying them to see if elements of a subsidy exist.

Administrative reviews under section 751 are well on the way to being completed within 12-month time periods.

We are not there yet, but we are getting there. There was an enormous backlog of years of unanalyzed entries that we have eliminated and we expect the entire backlog to be eliminated next year.

At the same time, we are meeting the stringent new deadlines for quality investigations and for completing them, and while this was not mandated by the statute, I think we have had some success in writing our Federal Register notices in plainer English.

We have established a central library and a public reading room to give the public access to our files and foreign subsidy practices are being collected and cataloged.

We are providing access to information under a protective order and this has led to real marked improvement in my experience.

Chairman GIBBONS. Could you get the microphone closer to you? For some reason you are not coming through.

Mr. HORLICK. The accession to confidential information and protective order really improved matters in my experience in terms of the dialog between the Government and the parties to a proceeding.

Everyone is arguing from the same set of facts. It has markedly improved the quality of the arguments. It has also increased the cost to the parties in these cases substantially.

U.S. lawyers like to argue about points. You give them something to argue about and they will do it. I bear some of the blame for that.

We have also made a number of improvements in our internal administration.

One of our major management objectives is to apply computer techniques to this area. We have established an automated data processing analysis support unit which is more complicated than it sounds to try to see what can be done to computerize these cases. There are a lot of problems in that because you are dealing with foreign companies, each of whom may have their own accounting system, their own computer system.

It is a real goal of ours. We have also set up an accounting support unit headed by a certified public accountant. We are going ahead with in-house training programs so everyone has a sense of accounting concepts and how the business world treats those matters.

Finally, we have made special efforts to assist small business petitioners. In some we made a lot of progress since the reorganization went into effect in 1980.

We are continuing to build on that progress. I look forward personally to working with you, with the other members of the committee, with the staff, in continuing to reach for and we believe achieve the objectives you set out for us 2 years ago.

Thank you.

Chairman GIBBONS. Thank you, Mr. Horlick.

Your full statement will be included in the record.

[The prepared statement follows:]

STATEMENT OF GARY HORLICK, DEPUTY ASSISTANT SECRETARY FOR IMPORT ADMINISTRATION, DEPARTMENT OF COMMERCE

ADMINISTRATION OF THE ANTIDUMPING AND COUNTERVAILING DUTY LAWS AND THE TRIGGER PRICE MECHANISM

When the trade reorganization went into effect in January 1980, it was felt by many that the success or failure of the overall trade reorganization would be judged ultimately by how effectively Commerce would implement the new provisions of the Trade Agreements Act of 1979, and to what extent Commerce would remedy perceived deficiencies in administration of the previous AD/CVD laws. While twenty-two months is not a long enough time to make a definitive judgment, it is not too soon to ask how Commerce is doing.

I would like to tell you exactly what Commerce has done to implement the new requirements of the Trade Agreements Act of 1979, and what Commerce is doing to improve administration of the antidumping and countervailing duty laws, and the Trigger Price Mechanism. I would also like to touch on, from our experience thus far, where further improvements might be made. Before going any further, though, I would like to acknowledge a debt to my predecessor, John Greenwald, who did an excellent job of handling the transfer from Treasury and setting IA on a path to full implementation of the Congressional schema.

I. NEW PROVISIONS OF THE TRADE AGREEMENTS ACT OF 1979

The Trade Agreements Act of 1979 made a number of procedural and substantive changes in the AD/CVD laws and Commerce has made vigorous efforts to implement them in the way we believe the Congress intended. Although we still have some distance to go, higher standards for administering the laws are being met.

1. Mandatory and More Extensive Verification Requirements

In all dumping investigations, the pricing practices of the foreign producer are analyzed and verified—both in the foreign market and the U.S. This includes prices, credit terms, discount structures and distribution costs, and may also include detailed analysis of the cost of production.

In countervailing duty proceedings, government incentives to production or export are examined to see if the elements of a subsidy exist. This examination includes but is not limited to direct grants, preferential tax rates or exemptions, excessive duty or indirect tax rebates, credit guarantees, loans and export insurance at below commercial interest rates.

In some cases, foreign governments or foreign companies have been reluctant to provide what we consider adequate verification, stating that such requests were the equivalent of doubting the truthfulness of their submissions. In the absence of adequate verification, we have been using the best available information—which is usually a combination of publicly available information and that supplied by the petitioner—with public notice of our reasons for doing so. Adherence to this policy usually encourages better cooperation from foreign respondents.

2. Administrative Reviews Under Section 751

In passing the Trade Agreements Act, Congress made clear its desire that, in a fashion similar to new investigations, the administering agency complete annual reviews of all outstanding cases within explicit, relatively short time periods; that interested parties, particularly domestic firms, have increased access to information used by the Department in its reviews; and finally that the Department make greater efforts to verify the adequacy of submitted information for these reviews.

At the time of the reorganization there were 88 outstanding antidumping findings and 67 countervailing duty orders for a total of 155 cases. We immediately undertook review of them in conformity with section 751 of the Trade Agreements Act. We used the anniversary dates of the orders as the starting dates for our reviews. We have endeavored to complete the reviews in each case within 12 months of the anniversary date, as required by section 751. As of today, November 12, we should have completed the reviews for 74 of the antidumping findings and 59 of the countervailing duty orders, or a total of 133 reviews. We have in fact completed 87 reviews. Of the 46 that are not complete, we have published preliminary results for 27. We have also published preliminary or final results for the second annual review cycle for 16 cases. As for the general goals of access to information and verification, the statute is silent on the specific question of protective orders and verification for Section 751 reviews. While the statute is silent, we believe that Congress clearly meant for both elements to be part of the Section 751 review process. We have liberally granted domestic firms protective order access to all data used by the Department in conducting the reviews. Given our budgetary constraints, we have undertaken verification in as many cases as possible. This has resulted in verification efforts in almost half of the cases.

The reasons for incomplete success in meeting the statutory deadlines are different for antidumping and countervailing duty cases. In countervailing duty cases the central problem involves verification and the need to overcome, in a number of instances, reluctance by foreign governments to permit such verification. We have attempted verification for 22 cases so far and have been successful in 19 of those. For one of the remaining three we fully expect successful verification in the very near future. In one other case the problem has been a lack of cooperation on the part of a company and not its government. In particular, we would like to point out one of the major illustrations used by Congress in 1979 to show the need to verify, namely the nine Spanish countervailing duty cases. We have been successful so far in conducting verification in five of those cases and fully expect to complete verification in the three remaining active cases in the very near future. The process of introducing verification has been a time consuming one and we fully expect that reviews in countervailing duty cases will take less time in our next cycle of reviews since most foreign governments will be more accustomed to the process. An additional problem in the countervail cases area has been the need to provide the ITC information on the transition cases covered by section 104 of the Trade Agreements Act. As of today, we have completed reviews on 23 of those 24 cases (the last will be completed shortly) and reported the results to the ITC. The ITC in turn has found no injury or terminated its investigation prior to a finding on 12 of those cases, for which we have revoked the orders. When combined with other revocations, our case load for the next cycle will drop in the countervailing duty area from 67 to 45 cases. The lower case load should aid us in marshalling our resources to complete reviews on time in the next annual cycle.

In the area of antidumping findings and orders, the problems have been different. First we face the very considerable task of trying to clear up a backlog of years of entries unanalyzed by the Treasury Department. For the 48 reviews now completed for this cycle, we have eliminated the backlog in 44 of them. In one additional case, the backlog will be completely eliminated in the very near future. We fully expect to continue to eliminate backlogs in the remaining cases and, in all but a very few instances, end the backlog problem by the completion of this review cycle. The other problem in meeting the 12 month deadline in antidumping cases has come from the massive number of companies to be reviewed (at this time 1,005 companies) and the possibility of disclosure and hearings requested by any of those companies plus domestic interests. For instance, we have conducted 24 hearings so far on antidumping cases. In each one of those instances the hearing process itself has resulted in substantial lags in completion of the reviews. Each hearing requires scheduling, receipt of pre-hearing briefs, time for receipt of the transcript and then the filing of post-hearing briefs and subsequent analysis of the arguments presented. We held hearings in 11 of the 28 cases that are currently late. In cases where we have held hearings, we also had requests from domestic firms for protective order access to data, and the protective order process, with its opportunities for opposition, also adds to the delay. In general, we believe we can do a better job in meeting the review deadlines in our next cycle, particularly since the massive job of clearing up the backlog should be completed.

3. Shorter Deadlines for Making Preliminary and Final Determination

The stringent new deadlines for investigations have been and are being met in most AD/CVD cases. The exceptions have averaged less than seven days.

4. Access to Case Information and Foreign Subsidy Practices

A central library and public reading room with access to public files for all pending and prior AD/CVD cases has been established. An official record for each case is being maintained. We are updating and supplementing materials currently contained in our files of information relating to foreign subsidy practices and countervailing measures. Copies of all material in our public files are available to the public for the cost of reproduction. So that case proceedings and subsidies information will be of maximum utility to the interested public, we are now in the process of cataloguing and indexing our public files.

5. Access to Information Under Protective Order

The purpose of limited disclosure of business confidential information is to enable the attorneys for the parties to the antidumping or countervailing duty proceeding to review specific factual information submitted to the Department in confidence.

Previously, attorneys speculated on the exact content of the confidential information and addressed those speculative issues. Now the facts are open to the parties thereby eliminating much wasted analytical effort for all involved in the proceeding. Also, since access to this information is often gained by the middle of the investigation, there has been an improvement in the level of discussions between Commerce and the petitioner, and Commerce and the respondent, leading to better decisions on method of calculation as well as appropriateness of adjustments.

Generally the disclosure is limited to the attorneys for the parties and only for good cause as determined by the Department. Attorneys requesting confidential information under protective order must submit a personal sworn statement not to divulge the confidential information obtained and to comply with other specific restrictions. Sanctions are imposed for breach of protective order. So far we are not aware of any breaches of these orders.

6. Suspension Agreements

Since the new act went into effect, there have been four suspension agreements. One of these was made under Section 734(b) and involved a dumping investigation on electric motors from Japan. The other three, under section 704(b), involved countervailing duty investigations of leather wearing apparel from Argentina, Colombia and Uruguay. None of the four suspended cases has come up for annual review, but it is expected that the specifics of the agreements will ensure full compliance.

II. IMPROVED ADMINISTRATION OF THE AD/CVD LAWS

1. Greater Staff Expertise and Training Programs

One of our most important management objectives has been to increase staff expertise in economic and accounting analysis and develop greater ADP support in analyzing and verifying cost/price information. To that end we have established an ADP and Economic Analysis support unit to provide economic analysis and programing assistance to case handlers in the Offices of Investigations and Compliance. Computer formatted questionnaires have been developed. We have also established an Accounting Analysis unit, headed by a Certified Public Accountant, to provide guidance and training on complex accounting issues which arise in the course of AD/CVD investigations. Drawing on our own senior staff, other government agencies, and the trade bar for instructors, we have also started an in-house training system to sharpen the understanding of all professionals of the concepts, problems and verification procedures for effective administration of the AD/CVD laws.

2. Regulations Review and Revision

To improve and clarify regulations and practices governing antidumping and countervailing duty investigations, an internal study group has conducted a full scale review of existing regulations. The review of the study group has already resulted in the clarification of policy on dozens of technical issues under the AD/CVD laws. The changes we intend to propose in the antidumping regulations would remedy serious inadequacies in the current regulations, such as the methodology for determining selling costs, cost of production, and profits. These proposals have been circulated to the trade bar, to your Committee, and to the Senate Finance Committee, and are now awaiting Departmental clearance. A similiar review of the Countervailing Duty regulations is now underway.

3. Assistance to U.S. Small Business

Numerous steps have been taken to assist domestic industry in the formulation of possible petitions. The Department of Commerce has produced a pamphlet which gives an explanation of the AD and CVD statutes in layman's terms. In addition, we have formulated an antidumping petitioner's questionnaire and a format for filing a countervailing duty petition. Import Administration personnel have met with individual industry representatives and industry groups at various locations around the country to discuss the possible use of the AD/CVD statutes and to assist in the formulation of petitions. We have continued the past practice of reviewing draft petitions and assisting those who come to Washington in the filing of petitions. There has been extensive written and telephonic communication with domestic industry representatives. A file is maintained of inquiries received concerning the possibility of filing petitions, and periodic followups are made to offer assistance. A "Chinese Wall" system has been applied to ensure that Commerce personnel who help an industry do not later work on any case which might result.

III. IMPROVED ENFORCEMENT OF THE TRIGGER PRICE MECHANISM

The Trigger Price Mechanism (TPM) was reinstated in October of last year with a commitment from the previous administration that the TPM would be an improved version of the TPM that had been suspended in March 1980. The most significant improvements were greater transparency in administrative procedures and the addition of a surge monitoring mechanism.

We have made great strides in making TPM operation much more open to and understandable by the public. Federal Register notices are published regularly on such disparate subjects as requests for changes in TPM product coverage and decisions, and impending changes in trigger price levels. Recently, the Department published in the Federal Register a procedures manual which contains a comprehensive overview of the significant aspects of TPM administration. It is no longer possible to say, as it might have been before March 1980, that the operation of the TPM is a mystery to the public.

The addition of a surge monitoring mechanism has been particularly significant. When, in the course of our monitoring of carbon steel products, we find that import penetration exceeds a specified level and domestic capacity utilization falls below a specified level, we determine which products are surging and which countries are responsible. After a ninety-day examination, we determine whether the surges appear to have been caused by unfair practices.

The first carbon steel surge was announced in the Federal Register on August 20, 1981. The ninety-day examination period ends November 18. We cannot at this time predict the outcome of our analysis.

On January 8, 1981, we extended the surge mechanism to five broad categories of specialty steel products. There have been three specialty steel surge reviews to date, and two product lines have been identified for further investigation.

In addition to making the operation of the TPM more transparent to the public and responsive to possible unfair trade practices that are not immediately detectable under our normal trigger price monitoring, we have substantially upgraded the effectiveness of TPM monitoring generally. The most significant change in this regard is the institution of a related party monitoring program under which we seek to ascertain whether the information that is provided to us with regard to resale prices in the United States is accurate. Other changes relate to the way in which the TPM is administered internally.

Current situation.—Lately there has been a good deal of publicity about the TPM. We believe that many people misunderstand the fundamental nature of the system. The TPM is not a quantitative restraint, and it is not a minimum price system. Thus the TPM does not guarantee either import levels or import prices. On the contrary, the TPM is a monitoring mechanism that we use to assist us in our administration of the U.S. antidumping and countervailing duty laws as they apply to imports of basic steel mill products.

We will self-initiate antidumping investigations when there is some basis to believe that sales that may be at less than fair value are causing, or threatening to cause, injury. The same is true with respect to countervailing duty investigations (except that an injury determination is not required in all cases). In June 1981 we initiated three cases involving steel wire nails. Throughout the spring and summer of 1981, based on frequent consultation with the industry, we did not believe that there were adequate indicia of injury to warrent the self-initiation of additional antidumping or countervailing duty investigations.

With the increased steel import levels of August and September, the injury situation has changed dramatically. We now have reason to believe that certain sectors of the domestic industry have been injured, or are threatened with injury, as a result both of sales of steel at less than fair value and of sales of steel by producers who have received trade-distortive subsidies. We have announced self-initiation of five cases on basic carbon steel products. These are the first in a series of cases we are contemplating in order to address the recent dramatic increases in imports of foreign steel. Self-initiation is not an extraordinary measure. On the contrary, we consider it to be part of the normal enforcement of the TPM. Enforcement policy has not changed; what has changed is the effects that steel imports are having upon the domestic industry.

In sum, we believe that the TPM is being adequately enforced with current resources and with its legal authority. Now that it appears that imported steel may be injuring domestic producers, a group of investigations has been commenced. Further, the simple structuring of transactions to route them through offshore buying offices is no longer a viable means of frustrating the monitoring objectives of the TPM.

IV. POSSIBLE CHANGES TO IMPROVE AD/CVD ADMINISTRATION

1. Cases Against State Controlled Economies

Both the Trade Agreements Act of 1979 and the DOC Regulations concerning antidumping investigations call for special treatment of cases against state-controlled economies. Section 773(c) mandates that if the administering authority believes that the country of production/exportation is state-controlled to the extent that sales or offers of sales in the home market or to non-U.S. markets do not allow calculation of foreign market value in the traditional way, foreign market value will be determined by either prices which a non-state-controlled economy sells the merchandise at home or in a third country or the constructed value of the merchandise in a non-state-controlled economy.

While that approach reflects attempts of past administrations to adjust a market economy-oriented law to the realities of a non-market economy, it is my opinion that there are major problems with our current approach.

The purpose of our dumping law is to afford protection to U.S. industry from foreign competitors which use high price home market or third country sales to compensate for and to allow them to pursue a low price market penetration strategy in the U.S. It also affords protection from situations where a foreign producer chooses to sell below cost. In all non-state-controlled economy cases, the decision-maker who sets the U.S. selling price has knowledge of and, to some extent, control over the value which we would consider fair value. Specifically a foreign producer knows the level of his home market prices, knows the prices received in third countries and knows his cost of production. If he sets a U.S. price which is below what we call "fair value" and thereby injures a U.S. industry, we assess a remedial duty in response to trade activity we deem to be unfair.

Currently we apply a standard of fair value to a state-controlled economy producer over which he can never have control and furthermore can never have knowledge of when making the decision on U.S. prices. We impose a standard for pricing behavior ex post facto which cannot be a factor in the exporter's U.S. pricing decision. In this way we deny the producer the ability to avoid dumping duties by pricing his merchandise fairly. This great uncertainty as to what we will ultimately determine to be a fair value is also a significant problem for the U.S. industry in that they can never be sure whether the competition they face from a state-controlled economy producer is fair or reflects an unfair trade practice. Further, U.S. industry faces considerable uncertainty as to the likely outcome of any petition which may be filed.

The uncertainty factor inherent in using a surrograte producer's activity as fair value is exacerbated by the variety of acceptable methodologies which can be used to determine this fair value. Depending upon our ability to find a non-state-controlled economy producer of similar merchandise who is willing to cooperate, we can determine the fair value based upon actual home market sales (of the surrogate producer), export sales, adjusted cost of production (constructed value) petitioners' prices and/or costs, or the constructed value of a hypothetical producer in a market economy. The process of determining and calculating the appropriate fair value is complex, uncertain, burdensome and costly for both the petitioner and respondent, as well as the government. We feel the approach needs to be streamlined and welcome the chance to help develop new legislation such as that introduced by Representative Cotter and Representative Schulze in the last Congress, and which was recently introduced in the Senate. A less burdensome approach would ensure that our investigations correctly seek to uncover an unfair trade practice rather than distort trade for long periods of time by creating prolonged periods of commercial uncertainty.

2. Judicial Review Procedures

The Trade Agreements Act expanded judicial review of Commerce's and the ITC's administrative decisions. At present, any final determination or any determination which otherwise precludes further factual consideration of a case is subject to judicial review.[1] While this provides petitioners and respondents with a greater opportunity for redress against arbitrary and capricious actions by Commerce and the ITC, we believe that it has significantly increased the average cost to petitioners of bringing and pursuing a case.

The majority of participants in the investigative or review procedures are lawyers acting on behalf of clients unfamiliar with the technical aspects of the law. Because most lawyers perceive it to be their duty to pursue all possible legal avenues in support of their client's interests, the provision for judicial review is frequently utilized. Currently more than half of all determinations made by Commerce are challenged in judicial proceedings. Given the length of the judicial proceedings and the extensive preparation required for presentation of arguments to the court, we observe a dramatic escalation in the costs to both parties, which very likely discourages domestic companies with legitimate claims from even filing petitions.

There is also a significant cost to both agencies in meeting these judicial challenges and a good portion of that cost has nothing to do with the performance of the agencies in administering the law. Lawyers have engaged in record building before the Commerce and the ITC on issues solely as a part of litigation strategy considerations in court. For example, in one recent case, counsel for the respondent made lengthy submissions to the Commerce Department contesting the constitutionality of the antidumping duty law. Counsel's arguments had no bearing whatsoever on the substantive analysis in the immediate case and served only to build a record for a judicial challenge.

This type of activity, while providing safeguards for equitable treatment under the law, consumes enormous amounts of staff time on issues not directly related to investigating the alleged unfair trade practices.

Chairman GIBBONS. Mr. Alberger.

STATEMENT OF BILL ALBERGER, CHAIRMAN, U.S. INTERNATIONAL TRADE COMMISSION (ON HIS OWN BEHALF)

Mr. ALBERGER. Mr. Chairman, thank you for this opportunity to testify regarding administration of U.S. trade laws.

The Trade Agreements Act was a leap of faith by the Congress. Much of it was based on the notion we had finally begun to move our trading partners toward this Nation's long-established tradition of open, objective import relief laws. Through the mechanism of the codes, we sought to compel other nations to conform their laws to minimum international standards which would guarantee transparency, predictability, and due process. Nowhere are these objectives more manifest than in the codes relating to antidumping and countervailing duties.

Despite the fact that our existing laws already embodied many of the codes' substantial standards and most of their procedural safeguards, Congress substantially revised our antidumping and countervailing duty mechanisms as part of the implementation process. Of course, part of this exercise was designed to carry out our obligation to extend an injury test in countervailing duty cases, but for both types of cases more complete definitions and guidelines for finding injury were established, a new preliminary determination procedure was adopted, periodic review was made a part of the statute, and shorter timetables for final determinations were implemented. Judicial review was also provided for all final determinations.

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[1] These include: determinations not to initiate, that a case is extraordinarily complicated, not to review an order where changed circumstances are alleged, not to review a suspension agreement, negative, preliminary determinations by the Commission or by Commerce, affirmative final determinations by the Commission or by Commerce, negative final determinations by the Commission or by Commerce, final determinations in 751 reviews, and decisions to suspend investigations, and injurious effect determinations by the Commission.

The successes and failures of the ITC in administering the injury test under this law tell a great deal about the future of the new codes. While many nations are moving in the right direction, none have the degree of objective fact-finding and adjudication that the United States has. Yet ultimately this may be the only way the codes can have their intended effect. The excessive intervention of political considerations into the resolution of trade disputes permits the reintroduction of hidden nontariff barriers that the drafters of the codes were attempting to eliminate.

The United States must eventually judge whether objective adjudication of factors such as injury is feasible and, if so, how to move the rest of the world toward that goal. In making this assessment, the experiences of the ITC and those who practice before it must be of paramount concern. From my perspective as a commissioner who has been helping to decide cases under the Trade Agreements Act, and as the agency head who has been directing staff work and conducting hearings, the new antidumping and countervailing duty laws work well. Since January 1, 1980, we have conducted over 50 investigations under the new law. All of these cases have been completed within the statutory time limits. It has thus been proven that it is possible to resolve such disputes quickly and thereby avoid the commercial disruptions caused by drawn out proceedings.

In addition, there are several indications of how the new law has improved the process. First, the new definitions and enumeration of factors pertaining to injury have helped to regularize the Commission's decisionmaking. As a result, parties to our proceedings know what the relevant considerations are and I believe have more faith that the decisions will be on the merits.

Second, the adoption of a preliminary test in each and every case helps to weed out totally unmeritorious petitions. The "reasonable indication of material injury" standard is low enough that it does not force domestic industries to present more than a prima facie case before there is a full adjudication.

Third, the new time limits, while placing some burdens on the agency's data gathering apparatus, are manageable. As our caseload increases, however, we are going to have to improve our investigative procedures—perhaps through greater use of computerized data and refinement of our questionnaires.

In sum, administration of the injury test by the ITC appears to be developing the way the code draftsmen and Congress intended. Relief from injurious dumping and subsidies is not impossible to obtain under the new law; in fact, if we exclude the transitional countervailing duty cases—which raised special problems—approximately two-thirds of our cases have resulted in affirmative determinations. The willingness of the Commission to turn down bad cases, however, shows that the standards of the law mean something, that entitlement to relief is not automatic, and that fair, open proceedings can protect the interests of the United States in an open trading system. Delegation of the injury test to an independent body like the Commission is the best way to assure that such decisions, which are subjective by their very nature, are made in an apolitical and factual manner.

Although I am encouraged by the ITC experience in administering the new statute, there are a number of problems. There are several complaints about the mounting costs associated with bringing a petition and seeing it through to a successful conclusion. Each case involves complex procedures at the Commerce Department to obtain a favorable finding on dumping or subsidies, two separate hearings at the ITC, and a high likelihood of judicial review in the Court of International Trade. The issues are so complex, and are examined at such a level of detail that representation by experienced trade counsel is almost essential. Often parties are faced with full-scale review in court with relitigation of the issues that have already been tried before the ITC.

These are the consequences of an adjudicative system, and some of the costs are inevitable if due process is to be afforded. Nevertheless, Congress must give serious thought to streamlining the statute and improving public access if we do not want to deter industries from bringing meritorious cases.

One possible method for defraying the costs to private parties might be for the Government to assume the legal fees of successful petitioner. This may not be a very popular idea in an era of budget restraint, but many of the statutes' complexities stem from the codes and cannot be eliminated without doing damage to international consensus. In the long run, it may be beneficial for the Government to assume more of the costs associated with eliminating unfair trade practices, and in any event the fees could be paid from the additional duties collected in such cases.

Another problem, which I have already alluded to, is that many other countries do not appear to be adopting the ITC model for judging injury. In many countries there are no hearings, no independently verifiable data collection procedures, and no thorough explanations of agency decisions. These systems retain a great deal of administrative discretion, and the result may be that there are still hidden nontariff barriers to U.S. exports notwithstanding the codes.

The solution to this problem is certainly not to abandon our laws, which are the best and most open in the world, but to work diligently through the GATT mechanisms to improve foreign implementation. Aggressive pursuit of reciprocal benefits through section 301 and through the dispute resolution process is the best way to assure proliferation of a rule-oriented trading system. This will be a long and arduous task, but it seems to me to be essential if we are to maintain the present structure of our laws and yet benefit from our international commitments.

Of course, I realize it is the responsibility of USTR to negotiate toward greater adherence to the MTN codes, but in the area of antidumping and countervailing measures the ITC could provide useful advice and technical assistance. Our general experience in administering the laws, coupled with our responsibilities as independent advisers to Congress and the President, make us well suited for this role. Perhaps Congress should consider some means of utilizing the ITC as an adviser on foreign implementation of these codes. This could be achieved through amendments to section

332 of the Tariff Act of 1930, our general advisory statute which would allow or require the administration to obtain our analysis of antidumping and countervailing procedures abroad. Our analysis could provide a better basis for USTR to administer section 301. It could focus, for example, on whether a particular foreign government's injury determinations meet code criteria and whether their analysis is sound.

I have more remarks to make, but I will hold them until the second panel.

Chairman GIBBONS. Thank you for your testimony, Mr. Alberger.

Mr. deKieffer.

STATEMENT OF DONALD deKIEFFER, GENERAL COUNSEL, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Mr. DEKIEFFER. Mr. Chairman, I will hold my formal statement until the second panel. I will be prepared to answer any questions you have with regard to this issue.

Chairman GIBBONS. Mr. Horlick, I am glad to hear you are making progress in clearing up the backlog. What is your aim now of the time to be able to process a complaint?

Mr. HORLICK. For new investigations, we have been in pretty good shape. We meet the statutory deadlines. I think where there have been delays they have been less than 7 days beyond the statutory deadlines.

Chairman GIBBONS. What are those deadlines?

Mr. HORLICK. I will summarize somewhat. They get complicated toward the end.

Basically, once a petition is filed, we have 20 days to decide whether or not to initiate a case.

The Commission has 45 days in which to review the preliminary injury side. Then in general—and I am running a number of the different possibilities together—the preliminary determination can come anywhere from 85 to 160 days later, depending upon the statute and whether there are exceptional circumstances.

There is a subsequent chain or tree of possibilities. The longest possibility for a case, I believe, is 14 months. That is in very unusual circumstances.

I will spare you the full tree, which I have a copy of.

Chairman GIBBONS. Yes. I have a copy of that, too.

You feel you are within the deadlines?

Mr. HORLICK. We have missed it on some cases. We meet it on well over half of the cases. The time we have missed, it has been by less than 7 days.

The problems have been on the 751 reviews. Starting in January of 1980, in dumping cases—you have to look at each company separately—we had a total of 1,005 company years of data to look at, some of it going back to 1972 and 1973. The approach we have taken, which I think is the right one, is, we look at the most recent years first.

We are taking a last in/first out approach, if you will, to our inventory of cases. We have been working on clearing up the 1978–79 backlogs first, which is where most of them are, and working back from that on the older cases.

My staff cheerfully told me I could tell you we would have it eliminated by this time next year. I am not going to go that far out on the limb, but we hope to have it basically eliminated, with some exceptions, by that time.

Chairman Gibbons. The current cases are current?

Mr. Horlick. The current cases are current.

Chairman Gibbons. Do you have any suggestions as to how we could improve the system?

Mr. Horlick. We have been collecting that. We want to review specific suggestions with the staff here, with the staff at the Finance Committee, and the other agencies.

There are two areas I would like to focus on. One has hit me with dramatic force in two cases, which is nonmarket economies, where I don't feel the current statute leads to particularly realistic results.

The other one, which is much broader, is one Chairman Alberger touched on, of complexity and expense.

The Congress, in judicializing the system in 1979, created a system that is extremely expensive for private petitioners. I can give a couple of examples. I am not suggesting these as changes, but as causes. Having a preliminary injury determination, which I am not quarreling with, inevitably increases the expense substantially for the following reason.

The code obligation—and I believe the statute—is a relatively simple procedure. But—and I referred in my earlier comment about laws—what you have is a situation where for good professional reasons any lawyer worth his salt will try to do as much in 45 days as you do in 90.

I have worked on some of these cases. You literally try to do a full-year case twice. It raises the cost. You feel you are not representing your client adequately if you don't touch every conceivable base.

That mentality applies to every step along the way. Judicial review is another example. There is judicial review for damned near almost—pardon me—for nearly everything. That is a good thing. I am a big fan of judicial review. It keeps me institutionally honest.

If someone comes to me and says do this, do that, I say look, if I do that, I get sued and lose. But what it means is, parties can tie up other parties in litigation for years.

We are looking at these. I am not in a position to offer specific suggestions now, but those areas are ones where I think Congress should focus on the issue of expense. If I could add one other thing, Congress put a lot of thought into—in 1979—as to whether small business could make its rights effective under this law.

We have tried very hard to assist them through counseling, through offering advice. If people have problems, we have sent investigators out to explain what the laws are like to them.

After we do that, we set up a Chinese wall so the person who has talked with them doesn't work on the case. There have been a couple of cases that in effect have been done solely by a small business without counsel, but in general the complexities of the law, the necessity of argument before the Commission and before the Department, really force a lot of companies to consider legal fees as a cost of these cases.

There is no way around it to still have the kind of due process which I think is necessary. It is a real problem. The cost of these cases has risen dramatically.

Chairman Gibbons. Well, I imagine self-initiated cases would be a lot cheaper, is that right?

Mr. Horlick. The problem with self-initiation, I think I would like to go to the concept of that rather than the mere form. My view of the 1979 act is that Congress put in several provisions aiming at making sure small business has a chance of getting the relief which is its due. Self-initiation is one of those. I think it works in practice—and I will explain why. The most effective provision is our requirement under the statute for accepting a petition from a business is that the business supply us information reasonably available to it.

What that means, and what I think Congress intended, we apply a different standard to a small fish company than to IBM, to speak hypothetically.

In terms of pure self-initiation, if we determine that a small fish company is being injured, and self-initiated, the case would go to the Commission which wouldn't have a businessman there saying he is injured.

What we do, instead, which I think has the same practical effect, is if the fish company contacts us, which it does frequently, they write to us directly, contact their representative who passes them on to us; we sit down and talk with them.

I have done this a number of times. We have sent people out to explain how to file a petition.

Then that petition comes in and technically it is signed by the petitioner. It is not a self-initiated case, but it hasn't cost the petitioner lawyers fees or investigator fees or anything like that.

It also means that there is a petition going over to the Commission with a real live, breathing—and I was about to say "bleeding"—frequently bleeding businessman standing in front of the Commission telling the Commission he is injured.

As a lawyer, I find that a lot more effective presentation to the Commission than the Department of Commerce sending over a letter saying we think the guy is injured.

I think the effect is what Congress intended, and I think Congress foresaw this by putting in the language I quoted.

Chairman Gibbons. Mr. Alberger, I think you made an interesting suggestion when you said perhaps the ITC could be used to advise the USTR as to whether or not in section 301 cases—what did you say?

I heard it, but repeat it again, please.

Mr. Alberger. I think one of the concerns that we have is how the new codes, particularly the dumping and countervailing agreements, are being implemented by our trading partners. The ITC, as perhaps the grandfather of objective fact-finding institutions on trade-related injury questions——

Chairman Gibbons. Mr. Horlick smiles.

Mr. Horlick. I agree.

Mr. **Alberger** [continuing]. Might be in a better position to evaluate the extent to which other countries are implementing the law in a manner similar to the way we do it and in the way that I believe the code draftsmen envisioned when they drew up the code.

Chairman **Gibbons**. What puts you in a better position to make that kind of decision?

Mr. **Alberger**. We are used to the same kind of evaluation. We are used to looking at the injury standard and evaluating how it is met.

Assuming that the information were available as to how other countries do it, that they have some detailed record of their proceedings, we could look at that and see exactly what is occurring. We would not necessarily substitute our judgment for theirs, but look at it on a reasonableness standard. It would not be too far away from maybe a court review, determining whether what they did appears reasonably consistent or whether it might be arbitrary.

Perhaps from our experience we could be better able than others in the Government to help advise USTR whether or not there is something worth pursuing under section 301.

Chairman **Gibbons**. Mr. Horlick, Mr. deKieffer, I ought to know this, but I don't.

Is the judicial review a de novo review or just on the record?

Mr. **Horlick**. It is on the record. That has caused a lot of—let me give you an example. People then try to build a record with us. In the extreme case, one counsel, in order to build a record for judicial review, argued to us the constitutionality of the statute; a little farfetched.

Chairman **Gibbons**. Do you have any suggestions on what we could do to try to keep down this kind of very expensive litigation?

I can see that some small business would never have a chance.

Mr. **Alberger**. I am afraid that is true. The smaller petitioners have a very difficult time in deciding whether to enter the fray in the first place. I am not aware specifically of any particular group that has decided not to pursue relief simply because of the costs, but I have heard that that is the case.

In looking at judicial review, I wonder whether the standard of review that is currently provided is too easy to bring the lawyers into court; whether if it were an arbitrary and capricious standard it would be a little tougher and maybe discourage every case going to court. It seems to us that almost every case that leaves us as a final determination shows up in the Court of International Trade on one theory or the other. If the standard were arbitrary and capricious, it might move the court a little further away from doing what in some cases seems like de novo review. It may not be. Their current standard is substantial evidence. That gets you awfully close to de novo review at times.

Chairman **Gibbons**. Have we ever had cases finally completed that have gone to judicial review?

Mr. **Horlick**. Not under the current statute.

Mr. **Alberger**. It is hard to say whether they are currently completed or not. Some have gone through various stages of review and, for one reason or the other, have either been mooted by a new case being filed or by the petitioner deciding they do not really care what they got out of the court and dropping out anyway.

I am not sure there is an actual, final review——

Chairman GIBBONS. Determination by the court?

Mr. ALBERGER. Determination by the court that is no longer being appealed somewhere or that a new case has not been started as a result of.

Mr. HORLICK. Under the 1979 act, decisions under the 1979 act have not reached the stage of final exhaustion of appeals.

What we have been getting a lot of is—the Commission has been more the target than we have so far—pre-1979 act cases are leading to decisions which affect the 1979 act. So far—if I could perhaps find a silver lining that may not exist, it is inevitable that I think for the next 4 or 5 years we are going to have a court wanting to explore the ramifications of the new law and plenty of petitioners or respondents willing to bring cases to them.

As the court sets down its rules, there will be fewer and fewer cases, one would hope, because more and more rules would be settled. So I think it is inevitable, given our legal culture and the newness of the law, that we are going to have a period of a lot of people going to court.

We get sued on almost everything. So does the Commission.

Mr. DEKIEFFER. Mr. Chairman, if I could point out too one of the effects of litigation before the U.S. Court of International Trade has been to at least partially derail some of the time limits that exist under both the antidumping and countervailing duty acts.

In other words, with all the possibilities for interlocutory review, neither statute is very clear as to what actually happens to a case vis-a-vis the statutory time limits.

When it goes back, when they go back, there is a real question as to where either the Commission or the Department of Commerce picks up those cases again, at what point in the time frame does it happen?

It is clear though, if there is interlocutory review—and there is in almost every case——

Chairman GIBBONS. Let's see. Before a case goes to the judicial side, it has been through the Department of Commerce; it has been through the International Trade Commission, and it has been where else?

Mr. HORLICK. Basically, we can be sued at any point in that process.

As I mentioned, we have 20 days in which to decide whether or not to initiate. If we decide not to initiate, someone can sue us.

Chairman GIBBONS. Then it goes to the Customs Court?

Mr. HORLICK. Court of International Trade.

Chairman GIBBONS. Court of International Trade. It is appealable from there?

Mr. HORLICK. To the CCPA and then to the Supreme Court.

Chairman GIBBONS. Nowhere is arbitrary and capricious a test?

Mr. ALBERGER. Substantial evidence.

Chairman GIBBONS. That type of rule?

Mr. HORLICK. Let me make it clear, we are not—I am sure Bill would agree with me. We are not trying to insulate ourselves from judicial review.

Chairman GIBBONS. I know. Nobody wants to. You want to make these things work.

Sooner or later you have to have a decision made. Justice can be thwarted if it is so expensive that no one can afford it.

Mr. **Horlick**. That is correct.

Chairman **Gibbons**. I think it would be very helpful to all of us if you all could sit down together in the shop and work out something. I think that would put an end to endless litigation.

Mr. **Horlick**. We will be happy to do that.

Chairman **Gibbons**. In the Trade Commission you function as a judicial body.

Mr. **Alberger**. Well, I hesitate to say we are really a judicial body.

Chairman **Gibbons**. A fact-finding body?

Mr. **Alberger**. It is a quasi-judicial fact-finding body. Some of the roles are clearly much more judicial than they are anything else.

Chairman **Gibbons**. You have rules, those rules have been tested as to their reasonableness?

Mr. **Alberger**. Yes.

Chairman **Gibbons**. What kind of decisionmaking do you have in Commerce?

Mr. **Horlick**. One phenomena which I found interesting being there and having practiced under the old law first is that since the 1979 act increasingly we are a quasi-judicial body.

In effect, it has become an adversary proceeding. There is a body of regulations. People come in and argue before us. We make a decision on the facts.

In fact, my goal is to make all these cases nice routine matters that are decided under the statute and the regulations, which is what I believe we are doing.

Chairman **Gibbons**. All your hearings on these matters are—

Mr. **Horlick**. We have public hearings.

Chairman **Gibbons**. They are public hearings, counsel for both sides are present?

Mr. **Horlick**. Yes.

Chairman **Gibbons**. How about you, Mr. Alberger?

Mr. **Alberger**. Yes; both sides are represented.

Chairman **Gibbons**. Ex parte hearings or anything like that?

Mr. **Alberger**. No.

Mr. **Horlick**. Any ex parte meetings are required to be made public. There is a memorandum recording the conversation put in the public file. If someone comes in, they are welcome to, but there are public hearings on all these cases.

Mr. **Alberger**. It is all basically——

Chairman **Gibbons**. In your operation, Mr. Alberger, you have a staff and then you sit as judges, is that right?

Mr. **Alberger**. Yes; that is right.

Chairman **Gibbons**. You write opinions on them?

Mr. **Alberger**. Yes; that is correct.

Chairman **Gibbons**. Mr. Horlick, how about in your operation?

Mr. **Horlick**. It has become the same way. It is to an astonishing extent a quasi-judicial operation now, which I think is good, but the more formal you get, I think the better due process you get and the more fairness you get, but it also becomes more expensive.

If I just went behind closed doors, as some of my foreign counterparts are alleged to do, and flipped a coin, it would be very cheap, but it would not be good.

Chairman **Gibbons**. Yes; we have heard them criticize our system, that our system is too expensive. Some of the foreigners do that. I think perhaps they may have a point.

Mr. Frenzel?

Mr. **Frenzel**. Thank you, Mr. Chairman.

I want to welcome the panel and thank them for their testimony; especially I want to welcome Chairman Alberger back to the scene of his humble origins.

We are delighted to have you back, all of you.

I am a little concerned about some of the testimony we had previously from the Department of Commerce that the 1979 amendments may have made your job a good deal more difficult. Did I misinterpret that testimony or is the law more difficult for you to carry out now with respect to antidumping and countervailing?

Mr. **Horlick**. I don't have a pure comparison, because I never worked in the administration of the old law. I was a lawyer practicing under it. The new law is more complicated, which makes it more difficult. On the other hand, in many respects, the less discretionary the law is, the easier it is in some respects. There are fewer judgment calls to make, fewer pressures you have to put up with. You simply tell people there is a law on the books. I was a big fan of the 1979 act and still am. It does require more resources, which we have, and it requires a greater expense to the parties, but it also leads to results which I feel are fairer.

Mr. **Frenzel**. Why does it require greater expense to the parties?

Mr. **Horlick**. Let me take an example—the congressional requirement that we verify everything. There was a fair amount of verification done before, but we have really—and again I want to give credit to my predecessor—it has improved enormously. Verifications are now done by people who specialize in dumping and countervailing duty law administration rather than people with general customs responsibilities. I don't want to criticize the general Customs attachés who had to do them before, but they did not have much background in it.

We now do a real serious verification, often with accountants, and put a great deal of weight on it. If you are representing a party to that litigation, you want to have your lawyer at that verification watching it. That is expensive. You want to have—whereas formerly a verification report would be maybe a couple pages, now you are talking about a 10- or 15-page document with backups. You want your lawyer to look at those 10 or 15 pages, tear it apart, put it back together again. The work product is better, but it is more expensive.

Mr. **Frenzel**. Do the time limits increase the price?

Mr. **Horlick**. I think they do a little. I think they probably kill more lawyers than they increase the price. I am not sure that was the legislative intent. One of the staffers who worked on the act later went into private practice. I had occasion to talk with him when we were supposed to go to dinner. He could not because he had this tight statutory deadline he had imposed upon himself, which he made.

Mr. **Frenzel**. I am glad he made it. Most lawyers like to wait forever for no conclusion. I would have preferred a longer series of deadlines, myself, but there is some good reason to eventually coming to a conclusion on these things. In the past we did not. I share your admiration for your predecessor who I think did a splendid job in helping to organize a very disorganized operation.

One of the things that bothers me about our laws now is that the department has indicated that it is going to self-initiate some antidumping cases in steel. It has indicated that anybody who takes advantage of the law—which, in my naivete I thought was available to all citizens of the country—the department would frown upon such activities and would try to pull the TPM. I did not think the TPM was a substitute for U.S. law. Apparently your department does. I wonder if you would explain that to me?

Mr. **Horlick**. My own view—which may be a personal one; I should distinguish it from the government's—of TPM is the institution of TPM was, in effect, bargained for in return for the withdrawal of the antidumping cases last year. My view is—I guess as the base level administrator of it—is we should follow through on what we bargained for. The Federal Register notice, which was very carefully hammered out among all the parties last year, said—in reinstituting the TPM—stated expressly the trigger price mechanism is a substitute for rather than a supplement to enforcement of the antidumping and countervailing duty laws. We have made it clear publicly, and I really would not want any misinterpretation; anyone in this country is free and welcome to file a petition under these laws.

We will process any of those petitions according to the statute and regulations. The problem with the TPM is twofold: First, conceptually, the trigger price mechanism is nothing more than a monitoring system. It is an information system designed to provide us information about importation of steel. It was made clear to the U.S. industry last year and to the foreign producers last year—I was counsel to one of them—that if certain types of imports at what appeared to be very low prices and high volumes occurred and came through the TPM, we would start looking to whether or not there was good evidence of subsidization or dumping.

If the evidence turned up that there was, we would then self-initiate cases. Consequently, I don't think anyone should be surprised when we self-initiate cases after the conditions we mentioned occurred. I don't view this decision as having been—the decision is made now, but it was clearly foreshadowed a year ago when the system was instituted.

Logically, if the industry chooses to file cases, then the industry has chosen to monitor the imports, themselves, and decide what products are being dumped or countervailed. The logic of it is that we should go ahead and process their complaints.

There is a second reason, an administrative one. The kinds of cases filed last year, and which we read about in the papers, and are being discussed now, would obviously absorb an enormous amount of resources and effectively preclude devoting these resources to the trigger price mechanism.

Mr. **Frenzel**. That is a good explanation, as far as I am concerned. I was never really thrilled with the trigger price mechanism. It was an ingenious device wrought to bring order out of some very difficult conditions. If it no longer serves the industry, the industry prefers to engage in antidumping or countervailing suits, I think that is fine, too. I think we put the law up there so people could use it. I don't want to give anybody the impression that you are discouraging them from using it. I would be much happier if we had some aggressive suits in antidumping. I would like to see some of these things moved up.

I am a little nervous about—you are self-initiating for albeit a distressed industry, but certainly one that is possessed of great assets. There are lots of other industries who believe that they are in similar or even greater difficulties, and you do not self-initiate. Take, for example, the problem of timber producers who have a complaint against Canada. They are going to have to carry the case with their own resources. Here you are doing it for United States Steel. How do you explain that to the little industry?

Mr. **Horlick**. First of all, the steel industry has spent a great deal of money on its own. Certainly United States Steel filed its own case last year and devoted considerable resources to it. I am somewhat more concerned with the problem of the small industry, as I said, though formally we have not self-initiated, we have a number of cases where, in effect, we have sat down with the small businesses, explained the law to them, held their hand a lot, and they have been able to do it without going to outside counsel.

I have met with the various lumber producers for a fair amount of time, and we have asked them to get back to us with more information. We do not claim to know each industry in the United States well enough. Inevitably we rely on them for information. In the steel cases, for example, if we self-initiate—the Secretary has announced he intends to self-initiate—the cases will be fought out by the industry. I am assuming that they will probably have an interest in showing up before the Chairman and his fellow commissioners and arguing they are injured.

I further assume they will keep an eye—they will act in the same role as interested parties do in petitioner-initiated cases, in keeping an eye on the foreign responses to our questionnaires, and things like that.

I don't think we are saving them a lot of money.

Mr. **Frenzel**. The other thing about TPM—and you can probably imagine I am not a great fan of that system. It was invented a couple of administrations ago by the Treasury Department when they were in charge of this activity, and part of the excuse for putting this in, or the rationale, was that this would give the steel industry a chance to put its act together, to catch up in its investment, to modernize, do all the things that it needed to do. Perhaps even do something with the labor relations where it shares with auto a very unusually high wage structure. Part of the deal, as I understood it, was that the Secretary—who was then Treasury; now Commerce—was going to monitor the steel industry activities to pull itself out of its difficulties. I have never seen any report or statement by the Secretary of Treasury or Commerce that they have ever looked into that problem or that they care very much about it, or that they are urging the steel industry to get itself straightened out.

I do, however, notice an article in a recent Wall Street Journal that indicates United States Steel, which is one of the ones that wants to sue everybody in sight, is considering buying the Cities Service Co. Apparently it doesn't have enough money to invest in its own facilities and came to us and told us all about depreciation, relief from air and water standards it needed, to modernize its own equipment, but now it's got—it says here—a billion-dollar-plus purchase, is the way the Wall Street Journal describes it.

Is the Secretary doing anything to look at that industry? We have a steel caucus here. It cries every day. It tells us the difficulties. We can see that there are great difficulties. But is the Secretary satisfied that the industry is doing anything to improve its condition?

Mr. **Horlick**. We have paid a great deal of attention to that issue. If I might add a comment first, the Secretary has made it clear publicly, and to this committee, I believe, 2 weeks ago, that he will continue to enforce the TPM as long as people want it, but if people don't want it, he is perfectly willing to go back to the administration of the laws that you all passed.

On the question of investment, when TPM was reinstituted last year, it expressly provided that it was for a period of 3 years, at the end of which the industry's progress towards modernization would be reviewed. I am not here to argue for or against the steel industry. I should point out that the industry in the last 12-month period has announced somewhere between $5½ and $6 billion in new investment, which is a substantial doubling of their usual annual rate. This is based on a number of factors, and I think they all tie together.

First, you have the new capital formation incentives which the Ways and Means Committee was instrumental in shaping.

The second aspect is the trade situation, because what you are talking about is the financial officer, chief executive officer, calculating whether it is worth his while in a purely capitalist sense to invest *x* dollars in X facility. The one thing he has to know is what kind of price he is going to get for the product of that facility.

The role of TPM in that context, or the antidumping laws, countervailing duty laws in general, is simply to assure him he will not have to compete with unfairly traded, injurious competition. They are nothing more or less than that. It provides a statutory environment where he then has to go out—or she has to go out—and decide whether or not to take the risk.

Mr. **Frenzel**. Amen. I don't want you guys telling anybody what to do. I think those people are supposed to make those decisions, themselves. I guess what concerns me is in taking the TPM, apparently the industry decided that that was a better deal than going the antidumping or countervailing route. Therefore, they were getting some extra form of protection from their government, and they made some sort of commitment at that time that they were going to straighten themselves out. Now they seem to have other things to do with their cash resources. I must tell you that I would defend their right to do whatever they want with their own resources, but I don't want to give them special protection if they are not interested in making steel anymore.

Mr. **Horlick**. If I might make a personal observation, which I don't know is legitimate for them, I have seen arguments that they should have some degree of diversification because steel is such a cyclical industry, historically. By the same token, however, obviously the administration has pledged to review the modernization. If they have pumped all their money into nonsteel producing activities, it does not look like they complied with TPM.

We are not—we don't feel in a confrontational posture with the industry. As I have said, they have responded to the investment incentives quite handsomely. In TPM matters, imports have been running at a high level. The industry has been analyzing them in a quite reasonable fashion. They have taken out products in short supply and not considered those to be injurious. You did not hear the screams until quite recently, even though imports have been high for a number of months.

Mr. **Frenzel**. I thank you for that. It sounds to me like the Department is exercising its responsibility. I think we just want to be sure about that. We want to be sure that the industry, itself, has all its options left open. I agree that it may be better for it to diversify. On the other hand, if so, then we don't want to continue to enforce perhaps extraordinary protections for them, and they should go back to the protections originally provided by law and maintained by law.

Mr. Chairman, I have overrun my time, I think.

Thank you very much.

Chairman **Gibbons**. Mr. Pease?

Mr. **Pease**. Thank you, Mr. Chairman.

Mr. Horlick, just a few questions:

First of all, you have described your efforts to administer the laws and given us quite an encouraging report this morning. Has your ability to catch up with the backlog been hampered at all by the cutbacks in funding for the Commerce Department, which have been part of the general budget-cutting exercise this year?

Mr. **Horlick**. Our budget was cut, as was everyone else's, in the first round. Since then—touch wood—we have had no further cutbacks. The cutbacks in the first round did not impair our activities. A number of them were positions that had not been filled. The problems—one thing we are trying to avoid that inevitably leads to some delay on the reviews is there is a "front-loading" problem.

As we review cases, some of them, for example, the Commission quite properly on some of those cases finds no injury on some of the old cases and revokes them. That means that next year we have fewer cases to review. We deliberately are trying to avoid overstaffing to handle cases this year, and then having too large a staff next year.

So far—as I said, we are not doing a perfect job by any means. I think we are getting better. We have been dealt with very well in the budget process.

Mr. **Pease**. Do you have any notion at all of what will happen if the second round of budget cuts goes through, the additional 12½ percent?

Mr. **Horlick**. Well, frankly, I would rather not answer. Frankly, I hope it does not happen to me. If the country has to reduce its deficit, no one is going to be exempt. That includes us.

Mr. **Pease**. I think it is just worthwhile to establish this for the record. You may survive the 12½ percent cut. The question then is what if there is another 12½ percent cut for fiscal year 1983, and so on. At some point, your ability to effectively administer the laws will be severely damaged. I am trying to establish what that point is.

Mr. **Horlick**. I can't really say what that point would be. It is hard to tell. A lot depends—aside from our annual reviews, our caseload is essentially unpredictable. I really can't give you a number.

Mr. **Pease**. You have not reached that point yet?

Mr. **Horlick**. No.

Mr. **Pease**. You are unclear as to whether the additional 12½ percent would cause you to reach that point or not; is that a fair summation?

Mr. **Horlick**. If I could add one thing—depending upon how many cases are filed within the time period. If, for example, the steel cases we have read about are filed, the equation changes.

Mr. **Pease**. Mr. Alberger, might I ask you the same question in relation to the operation you have?

Mr. **Alberger**. Let me explain a little bit about what has happened to us in this budget year. Of course, our budget goes through OMB untouched pursuant to the Trade Act of 1974, which provided for our budget independence. We are, therefore, only dealt with by the congressional committees. At the authorizing level our budget has not been cut for fiscal year 1982. However, at the appropriations level in the House, it was cut by $300,000. The Senate, in a move made about 2 weeks ago, took off a million more as part of their overall attempts to cut certain amounts by appropriations subcommittee. We lost a million. This effectively puts us a little under the fiscal year 1981 level we operated at. It means under current conditions, we can't hire anybody. We don't have to RIF, thank goodness, but we are having to operate at that level. We are also under the constraint that we may have to operate on a continuing resolution, if our bill is vetoed. We hope very much that somehow we will get our million back into the budget. I think as we look at the possibility that all of these steel cases that the newspapers are reporting are going to come—and as Gary has confirmed here this morning, some of them are clearly going to come—this is a matter of some concern to us.

As a result of some losses of staff in the steel area, we are not up to strength there. We will have to do it with present personnel onboard and move some of them into the steel area in order to handle it. We think we can. We think we can do it competently. If we get swamped with a lot more, we are in trouble.

As we look ahead to fiscal year 1983, there is a prospect of additional cuts. We are in an agency that the Congress has mandated to do more by virtue of the Trade Agreements Act of 1979. Also filings under section 337, which is in the second part of this morning's proceedings, have increased dramatically in the last year. We are a bit concerned that if our budget is cut too much, we are going to have a real difficult time handling the caseload. So I am very concerned about that situation.

Mr. **Pease**. Thank you.

Mr. Chairman, I don't want to belabor this point, but I come from an area where steel is very, very important. Occasionally, I hear from executives of the steel industry who are displaying great enthusiasm for cutting the Federal budget. I think they must envision welfare cheats being cut every time we cut the budget. I just think the point ought to be made that it is not only welfare cheats who are suffering when the budget is cut, but also the ability of the respective Federal agencies to administer the laws which will hopefully provide for fair competition in the steel industry.

Let me ask you another question, Mr. Horlick. I have heard the trigger price mechanism described in two different ways. Some people describe it as an inadequate protection for the steel industry; it does not really do the job. Other people describe it as undue protection for the steel industry; the price levels are set artificially high as a result of using Japan as the base for the pricing system.

Do you have any feel in your capacity as to whether the TPM is unduly or inadequately protective of our interests?

Mr. **Horlick**. I appreciate your fairness in asking that question. As you pointed out, beauty is in the eye of the beholder. I think that—I do want to clarify the nature of TPM. The trigger price mechanism is solely a monitoring device. Anyone who wishes to, can import steel into the United States at any price they want and run the risk of dumping or countervailing duty cases. Similarly, any U.S. producer, group of workers, or anybody else who fits within the provisions of the 1979 act can file a dumping or countervailing duty case without us.

Is it undue protection or not? First, on the price levels, I have a fair degree of confidence in the prices as representing Japan's costs of production. There is a general—there is a fair amount of consensus that they are the most efficient producers. You can get arguments on specific products, and obviously as currencies fluctuate, you can get lots of arguments.

The basic point is that you have a situation in which—let me put it in personal terms: I have worked on antidumping cases or countervailing duty cases involving carbon steel plate in 1977, 1978, 1979—new cases each year—1980, and the Secretary has stated we will be working on them in 1981.

I cannot believe that you can run a plate mill when you have that kind of uncertainty every year, or for that matter—let me amplify that: You cannot run a plate mill in Ohio, but you can't run a plate mill overseas, either, if you ship to the United States, without knowing when you will be in litigation, a new case every year, and you never know how it will come out.

TPM, I think, the core purpose was designed to provide a little more certainty, so you don't have that kind of situation on every product. TPM was caused essentially by an across-the-board set of suits in 1977 and 1980, about this time of the year. For better or worse, there has been—except for the plate problems I mentioned there have been—it has been rather more stable. Now, stability may not be good, and as I said, the department and the Secretary has said innumerable times, we are perfectly willing to get rid of

TPM and go back to the administration of the antidumping and countervailing duty laws.

Whether—to return to your question; I haven't given you a yes-or-no answer. There may not be one. Is it protectionist? The U.S. industry would point at the current importation and say, heck, no. The other people would say, sure it is.

Mr. **Pease**. Thank you very much. I realize the difficulty of arriving at a straight yes-or-no answer.

What about the protection provided? As I understand it, you are self-initiating cases. What is the end result of initiating these cases?

Mr. **Horlick**. The cases—four of the cases, which I am not at liberty to describe in more detail yet, will be countervailing duties. The other is dumping. If dumping is found and injury is found by the Commission, an additional duty is placed equivalent to the margin of dumping, which is the difference, in greatly generalized terms, between the price in the foreign country and the price here. Dumping is where you are selling for less here than at home. I am leaving out a lot of details, obviously.

Therefore, to the foreign companies, simply by raising its price in the United States to the same level it charges at home can avoid any duty. A countervailing duty case, which is about subsidization, which is frequently alleged with foreign steel industries, results in a fixed amount, typically an ad valorem percentage per unit. That does not change with the price of the foreign steel coming into the country. That is supposed to reflect the amount of subsidy given in the foreign country. You would have to get pretty far—pretty extreme for an economist to tell you that a subsidy is not as much of a distortion to free trade as an import barrier. The free market allocation of resources is distorted by subsidies, at least most economists think.

Mr. **Pease**. Thank you very much.

Thank you, Mr. Chairman.

Chairman **Gibbons**. Mr. Bailey?

Mr. **Bailey**. Thank you, Mr. Chairman.

Hello, Mr. Horlick. How are you? I am also from a steel area, although I don't have in my district any steel-producing companies. I want to thank you for, I think, some very objective comments you have made here this morning, especially about the role of TPM. Also I think you are quick to point out the reason why steel companies, first of all, should perhaps diversify. That is not a bad point.

Lastly, they do have stockholders to answer to. Most importantly, they have announced and indicated a very strong commitment to reinvestment. They made those plans, incidentally, and announced them before there was any commitment on the part of this administration clearly at least—although the indications were there—or before they knew we were going to have the tax policy that we did.

You know that is so. I know that is so. They had made that commitment. That is all right.

I do think there are some unique situations with steel, simply because of the nature of the world market and the nature of the relationship between foreign governments and their steel industries which have brought it into a focus in terms of our countervailing duty and antidumping statutes and laws.

I also think that you indicated when it comes to the cost of collecting and monitoring that information, that it is an extremely costly process. You are talking about multimillion dollar processes and lawsuits on the part of major steel companies.

You mentioned you were a counsel to whom? Would you rather not——

Mr. **Horlick**. I don't mind. I worked for British Steel Corp. and Nippon Steel Corp.

Mr. **Bailey**. You would know, then, the insides and nuts and bolts of these kinds of things.

I was just glad to hear your comments. I think it was a very objective defense of the reason and purposes of these things. Here is my question, my problem: You know what that data has indicated—import problems have occurred in July, August, and September. I also know and have had an opportunity recently to benefit from some comments by some very high administrative officials who know dumping has occurred—no question about it.

You know, also, that when you folks get out front—when you, Commerce, says something—what that means to foreign producers and foreign governments. This is much more than a threat from United States Steel to file a suit. You know that.

What in the hell is taking you so long?

Mr. **Horlick**. I think that is a perfectly fair question.

Mr. **Bailey**. I think it really is. I will tell you, I have been waiting for weeks.

Mr. **Horlick**. As you can imagine, some steel industry people have asked us the same question.

Mr. **Bailey**. I would imagine they probably have. I know they have. I want to ask you a question about jawboning after you answer.

Mr. **Horlick**. The basis of the trigger price mechanism is nothing more or less than the 1979 Trade Agreements Act, the dumping and countervailing duty provisions.

We would not—it is not our job to determine whether or not there is injury. It is the Commission's job. We very carefully don't try to do their job for them.

Mr. **Bailey**. Maybe he can answer.

Mr. **Horlick**. No. I am the right one to ask the question.

Mr. **Bailey**. I thought you were.

Mr. **Horlick**. What we have is a situation, speaking objectively—and obviously I cannot identify people. We have not made up our minds about the outcome of any cases we will bring. I will couch it in legalese. It is why they allege that foreign governments subsidize their steel industries.

I am sorry. Let me—I am trying to answer your question.

Mr. **Bailey**. I would just ask you if there was dumping, in your opinion.

Mr. **Horlick**. Again, I can't say. I have to make that decision objectively. Someone will sue me if I tell you now.

Mr. **Bailey**. We will protect you.

Mr. **Horlick**. There are two limits required, either dumping or subsidization and injury. In my view, until recent months, there were not viable injury cases. The industry asked us not to bring cases when there were not good injury cases. What we had for most of the year was a situation where imports were up, and, as I said, the industry was very responsible in analyzing the figures because of increased imports in two categories: semi-finished products, which are basically slabs which the U.S. mills, themselves, buy.

Mr. **Bailey**. Comment on stainless, too.

Mr. **Horlick**. I will get to that in a second.

Slabs, semifinished products, and pipe and tube. Pipe and tube, the bulk of the increase was due to an enormous surge in drilling activity in this country in response to decontrol of oil prices, and Canada is lending the United States a helping hand by sending us all their oil rigs through their energy policy.

But the net result was a lot of people were—if you are running a drilling rig, if you are out there drilling, you are on allocation to get the casing you need. So imports were very high, as was domestic production.

What happened is that in the last few months, starting with the August—really the July and August import figures, and September, you suddenly see an increase in the flat-rolled products, and in August of this year; so you don't have an injury case on most pipe and tube on semi-finished, because the customers are the U.S. mills frequently. They are not going to bring cases. They are buying the stuff.

Mr. **Bailey**. I know what you are referring to. That is a little unkind shot, in a sense.

Mr. **Horlick**. I don't mean it unkindly.

You do have the beginnings of injury cases on flat-rolled products. Basically, you don't go—the August figures came out September——

Mr. **Bailey** Can I interrupt one second? On that tubing, that sort of makes me angry. I will make one short comment. We had a policy with the Canadians that has so destroyed and limited American capacity over time that it is not a fair thing to say that they are taking advantage of a cheap opportunity. That might be an inference.

I know you didn't mean it that way. I just thought that ought to be thrown in. They require huge capital investments in this area, and years and years of investments sometimes for new technologies. I just think that needs to be thrown in.

Mr. **Horlick**. Fair enough. We analyzed the figures very carefully and we started seeing—all right. So you get the August figures out September 28 from Census. That was essentially 6 weeks ago. As soon as you get the figures, you start analyzing them. That is where you start seeing cases. The Secretary has announced he is going to self-initiate five cases on flat-rolled products. That is within the space of 6 weeks. I won't claim we did all the work in 6 weeks. I guarantee you from my private law firm experience, where I represented petitioners, American petitioners as well, it takes 4 to 8 months to do a good petition.

So we have been doing our homework. As soon as we saw there was a possibility of good, solid cases that the Government responsibly should bring, we started moving ahead on those cases. I have absolutely no regrets over what we did. Until those August figures came out, the industry was telling us not to bring cases because they didn't want to lose injury cases.

To put this into context—and I also want to comment on stainless—to put this into context, we looked for gross indicia of injury. We don't make a decision. It is up to the Commission.

I am not trying to put the blame on them. I am saying that we read the statute, looked at past decisions to try to figure out what the Commission considers to be a reasonable indication of injury. Precisely because the industry did not want us to bring cases that would lose.

With respect to the specialty industry, the last administration decided that the specialty industry would not be under trigger prices but under a surge mechanism.

We have quite faithfully followed those surges.

We are about to announce a new set next week.

Mr. Bailey. In other words, you have discovered a problem in the——

Mr. Horlick. No. We have announced surges every quarter. We have monitored them.

Mr. Bailey. You don't want to tell us what you think you see right now?

Mr. Horlick. Literally I don't know, because we are still playing with numbers. We have followed that up. We told the industry that if we detect a surge—with evidence—solid evidence of subsidization or dumping, then we are willing to move ahead on cases.

We are not—we don't feel that we should go out and file cases against everyone on everything every time.

Mr. Bailey. Let me finish.

The committee has been very kind to me in terms of time I thank you. You come across well. You are obviously well educated in the area.

I compliment you on that.

Second, I think you are very objective about it and you are fair in the treatment of these companies and the industry because they do have some difficulties.

There is some focus there. There is uniqueness, especially in the subsidy issue.

I want to compliment you for highlighting that and speaking to it objectively. I have received complaints there has been some foot-dragging.

I will just finish with this: If we don't do something about these kinds of things, the relationship between our government in the finance area, the tax area, marketing, those kinds of things, if we start doing business the way the Japanese do business, we are not going to have a great big trade war. They are going to get driven into the sea, but that is where we are going to end up.

The American public is getting angry about protecting this industry. Until you go out and target some market—and we happen to be the big market—it is just not a fair situation.

Our Government needs to put a little more teeth into their intentions because they have been jawboned down.

These companies have been jawboned down on practically every major issue with which they dealt over the years. I think you know that.

The Government has played a huge role in directing their policy.

Mr. **Horlick**. I think I can briefly explain some of their frustration on the trade side, which is inherent in our laws that—let's say you are an American steel producer and I am a foreign steel producer.

I go to your customer today and offer your customer a price way below yours.

You, as the businessman, are hurt today. You have to lower your price or lose a sale today, November 12.

That steel is not going to be rolled for another—let's say the foreign producer gets the order. That steel should be rolled in December, shipped in January, going to arrive in February, show up in the import statistics at the end of March.

You are hurting that whole time. You are getting frustrated because you cannot do much. Your lawyers tell you you cannot do much. I have represented petitioners. They call me up and say, "Goddammit, why can't you do something now?" You run through the law. You sense their frustration.

On the subject overall of trade policy, there is no doubt in my mind, and I think the administration, Ambassador Brock has been quite clear on it also, speaking for the administration in hearings earlier this year that it is up to the U.S. Government. I should confess some prejudice on this.

I used to work on the other side of the Hill. It is quite clear to me that we have to—we have to get a fair shake. If we open our markets, it is because everyone else's markets are open. It is not a one-way street.

It is a hackneyed phrase, but it doesn't work economically or politically.

The basis of free trade is both sides opening up. I don't think you will get any disagreement on that from anyone here.

Mr. **Bailey**. Thank you.

Thank you, Mr. Chairman, for being kind with the time. Thank you very much.

Chairman **Gibbons**. Mr. Schulze?

Mr. **Schulze**. Thank you, Mr. Chairman. I have no questions. I would just very briefly say I think we are heading in the right direction. I think that for the first time I see a willingness downtown to take the initiative in those situations. It is what I have been after for quite some time. These cases are brought by the Government; they have a great deal of additional weight.

All I think we should do is enforce the laws that are on the books as vigorously and rapidly and decisively as we possibly can.

I am heartened by the signs that I see coming. I just have long been an advocate of using that 2 by 4 to get the attention.

I think that we have it poised and we are ready to bring it down. As soon as it comes down, I am going to be very pleased. I congratulate you and think we should keep moving in the same direction and just be as tough, mean and miserable as you possibly can. It will help us all.

Thank you.

Chairman **Gibbons**. Mr. Horlick, what is a steel slab?

Mr. **Horlick**. Basically it is a semifinished product. It comes out of the hot part of the mill and you then either roll it into sheet or make it into some other finished product.

It is not usable by—it has to be rolled before it is usable by, say, the auto industry or somebody else.

Chairman **Gibbons**. Who buys that kind of steel?

Mr. **Horlick**. Well, basically it would be bought by a mill that has rolling facilities. Let's say you have a 3-million-ton rolling capacity and blast furnaces that make 2 million tons. You would be buying your slab from somewhere else to roll it into sheet to sell to a car company.

Chairman **Gibbons**. Then is it the U.S. steel companies that buy slabs?

Mr. **Horlick**. There are special situations involved geographically sometimes where often—and the import statistics are not really a good way of sorting this out. You have to remember that the U.S. industry and the Canadian industry are geographically in the same areas. Congressman Bailey knows that all too well.

For example, there are times when a Canadian mill sends slab to the United States to be rolled and brought back to Canada, where an American mill sends slab to Canada to be rolled and brought back to the United States. It is very much dependent upon specific freight rates, geography, local capacity conditions, whether your blast furnace is being relined. It is very complicated.

Right now we see a lot, really something like 400,000, 500,000 tons of slab coming in from Canada this year.

Part of that is that the Canadians have much higher capacity in slab than in finished products.

They are building a rolling mill now that will roll that stuff. So it is a—I can't give you a simple answer.

Mr. **Bailey**. Mr. Chairman, would you yield 1 second?

I can answer that for you.

In many of the companies there is simply a difference. Many times there is a difference between primary production capacity and finishing capacity, in short.

There is an imbalance or reasons properly alluded to that sometimes can affect the transfer and utilization of those two basic parts of the industry.

Business might dictate it sometime; the acquisition of slab products for finishing purposes, because there is some type of insufficiency or difficulty with primary capacity production. Most companies try to balance out the relationship between primary production and finishing capacity.

Business conditions don't always dictate that that will always be easy.

Chairman **Gibbons**. Didn't we have a surge in slabs? What would cause a surge in slabs?

Mr. **Horlick**. No. The semifinished products are not under trigger prices. No one wanted them under trigger prices.

Chairman **Gibbons**. Slab is not under trigger price?

Mr. **Horlick**. No.

The Congressman knows much more about the steel industry than I do. It is not what comes out of the end of a steel mill.

Chairman **Gibbons**. What is the increase in imports in slabs?

Mr. Horlick. Let me do it chronologically. For the first 7 months of the year a lot of the increase in imports was in slab and pipe and tube. The industry was not complaining about the import figures.

Chairman Gibbons. They were buying that, weren't they?

Mr. Horlick. Some of it, the slab.

The industries started complaining when the increase started being in the finished products, the sheet and plate particularly, but a lot of other products.

That happened with the—starting in July, but then the August—especially the August and September figures, you started getting rises in those. Even so, to try to balance it out——

Chairman Gibbons. You know, you can understand why a Member would be a little cynical—I shouldn't say cynical, a little conservative—about some of these complaints you hear from industry.

I can remember sitting here 10 years ago and listening to the oil companies just cry about how they needed that depletion allowance and all those things.

We let them continue that ripoff, writeoff. The first thing, good old Mobil goes out and buys Montgomery Ward. Everybody said, oh, you know, the oil business is not very good. They are trying to diversify. You have to really feel sorry for them.

Then you read the profit figures. Good old Mobil again is out now buying Marathon because it needs to expand America's oil production. That is going to expand oil production a lot.

Now we have United States Steel. They have been complaining since history books have been written about this problem of competition. They have never been willing or able—they and the unions together—to meet competition.

I have been hearing they have been buying Florida real estate all over the place, some of the finest golf courses, beachfront property in the world, while they couldn't make any money in the steel business.

Now they are about to buy Cities Service, or they are thinking about buying Cities Service. I'd have to be insane to sit here and not be a little skeptical about their complaints.

Why is the U.S. Government, with all the steel industry resources, bringing cases for them?

Mr. Horlick. Well——

Chairman Gibbons. It looks to me like you have already decided. You said they didn't; they said they didn't have injury, they didn't have a case; now they come rushing in and say, oh, we got an injury finally. After years of complaint, we found an injury.

Now, go ahead, U.S. taxpayers, file a case in which you are both the complainant and the factfinder.

Mr. Horlick. As I——

Chairman Gibbons. Go over and tell Bill Alberger's group the Government has decided there is a case here. Put the prestige of the U.S. Government and the Reagan administration behind that and see if those Commissioners wince over there when you drop this self-proclaimed injury case in their laps.

Mr. **Horlick**. We recognize the force of your arguments, Mr. Chairman. The steel companies have legitimate concerns about foreign government subsidization.

Chairman **Gibbons**. Why haven't they brought cases? They know the way to the courthouse.

Mr. **Horlick**. As you recall, they sure do. They drove a truck through the door last year, as I recall.

They brought a fairly large number of cases last year. As part of the agreement to withdraw those cases, it was stipulated that the Government would bring selective cases where clearly appropriate.

Chairman **Gibbons**. I wasn't aware of that stipulation.

Mr. **Horlick**. It is implicit in the TPM.

Chairman **Gibbons**. I am part of the Government.

Mr. **Horlick**. My apologies.

Chairman **Gibbons**. Why weren't we told it was stipulated? I thought you set up TPM, which is nothing more than a minimum pricing mechanism. In practice, that is what it is.

Nobody is going to bring in steel at less than the trigger price and have the whole U.S. Government chase them around.

Mr. **Horlick**. I assure you——

Chairman **Gibbons**. Nobody except a fool would bring in steel at that price.

Mr. **Horlick**. I wouldn't want to comment on some of our trading partners, but some have been bringing in steel well below trigger prices in large quantities in recent months.

It is only those cases we are going after.

However, we feel that it is part of the trigger price mechanism that when people bring in steel well below it, in circumstances that strongly suggest large subsidization or large amounts of dumping, that we go after them on a product-by-product basis.

Chairman **Gibbons**. If dumping is going on, why hasn't the steel industry come in and said, you know, we are going to file a case. We have a case.

Why have they been so——

Mr. **Horlick**. I understand from the newspapers there is a good chance they will.

Mr. **Bailey**. Would the gentleman yield?

Chairman **Gibbons**. Sure. This isn't the first time I have challenged them from this pulpit to bring a case if they have a case.

I am sick and tired of hearing them come up and complain and complain and complain and lobby all around the Hill for all kinds of protection; then finally get the U.S. Government to tout a case for them.

Why can't they bring a case themselves?

Mr. **Horlick**. Apparently we will be seeing that.

Mr. **Schulze**. Will the gentleman yield?

Chairman **Gibbons**. Certainly.

Mr. **Schulze**. It seems to me we have laws on the books and it is up to the Government to enforce those laws.

A private citizen very rarely brings a case in the private sector. It is the Government which has the responsibility to enforce that, the laws on the books.

Chairman **Gibbons**. Wait a minute. That is not the law.

Mr. SCHULZE. We don't need police? We don't need anyone to enforce the laws? They are the ones who enforce the law.

Chairman GIBBONS. These are not criminal cases. These are commercial cases.

Mr. SCHULZE. It is criminal to those being put out of work.

Chairman GIBBONS. They have a right to come in.

Mr. BAILEY. Will the gentleman yield?

Chairman GIBBONS. Certainly.

Mr. BAILEY. I think one of the things that makes these cases so difficult—and I don't have the chairman's knowledge of the multilateral trade negotiations or international agreements—is discovery, which is one of the real problems here.

Getting such information, access to foreign forums, and information from companies that make verification impossible.

Second, the huge amount invested in these cases, and there is a tremendous difficulty if you lose.

You really run a horrible risk. One of the reasons why the governmental role is so crucial, I think, is that not only are you dealing with a sensitive area which affects a relationship between our government and another—a government that goes far beyond a company's interests, but you also have the one thing I would like to offer for the chairman to think about. That is the fact that these companies are often—one of the reasons they don't prosecute these cases—jawboned down on these cases for sometimes tangential or peripheral considerations that don't really go to the issue of the cases.

Mr. Horlick may not agree with that, but there has been an awful lot written about the governmental role there. I don't know. I think if it were a little easier for them to get information, and they had a little better forum to go into——

Chairman GIBBONS. What worries me about this, I have just heard the witness say that there have been over a thousand cases filed. Two-thirds of them have been found for the complainant, isn't that right? Something like that. Over the 2 years?

Mr. HORLICK. No. There have not been a thousand. The thousand figure was a backlog of data.

Chairman GIBBONS. Other people can file 2,000 cases over some period of time and get two-thirds of them decided in the affirmative; but these poor people, the biggest industrial operation in the United States, can't carry their own water?

Mr. HORLICK. The steel industry last year filed 34, 35. I think it was 34 cases which was more than everyone else combined in the country filed.

Mr. PEASE. Would the chairman yield?

Chairman GIBBONS. Sure.

Mr. PEASE. As the chairman knows, I am new on this committee, but I have a memory dating back to a year or so ago that in terms of our overall relations with our trading partners, the Carter administration was extremely eager not to have antidumping cases filed and it was for that reason that they were pushing for TPM instead and urging the steel companies not to file dumping suits. Is that correct?

Chairman GIBBONS. That is not incorrect, but I can tell you this is the Congress. This is not the Carter administration.

I am expressing my own personal opinion. I think the Carter administration was wrong. I think the Reagan administration is wrong. I can see maybe being the plaintiff and the judge in a case in which you have got a bankrupt defendant, but if United States Steel is seriously thinking about buying Cities Service, they are not exactly bankrupt.

Mr. **Horlick**. I can't comment——

Chairman **Gibbons**. I don't see how anybody—well, I have had enough on that one.

Let me ask some questions about trade law.

Mr. deKieffer, as you know, there has been considerable concern about the decision in the Mexican toy balloon case in which, in a rather offhanded manner, the administration apparently gave to Mexico the injury test, although Mexico has chosen not to be a member of GATT. What role did the USTR play in this decision?

Mr. **deKieffer**. Thank you, Mr. Chairman.

Mr. Chairman, during the decision period USTR, in particular Mr. Brock, was consulted by the Department of Commerce. It was the Department of Commerce who ultimately had the final decisionmaking role in this matter.

I would like to defer to Mr. Horlick with regard to reasons that the Department of Commerce made this decision.

Mr. **Horlick**. I was not part of that decisionmaking process, because I was not at the department.

My understanding is that the decision was based on an international obligation created by a 1978 Treasury decision involving textiles from Mexico and the Department felt that in the absence of any modification of that there was, if you will, a reliance interest with respect to the Mexicans concerning nondutiable goods.

It is the Department's view that this decision did not create a legal precedent. We have advised the Mexicans that the international obligation created by the 1978 decision would not necessarily apply in the future.

I am really constrained from commenting too much because the whole matter is in litigation.

I would like to point out though that 2 weeks ago, October 26, we initiated a case on ceramic tile from Mexico with no injury test.

Chairman **Gibbons**. Mr. deKieffer, is the countervailing duty law clearly applicable to imports of industrial equipment into the United States with subsidized export financing, even though the interest rates for that financing are in conformity with the OECD arrangement?

Mr. **deKieffer**. Mr. Chairman, as you know, USTR does not administer the countervailing duty law. However, it is the general view of the Office of U.S. Trade Representative that we are not constrained as a matter of international law, particularly with regard to the second paragraph of item K of the illustrative list of the subsidies code to which you refer.

As a matter of U.S. law, the way we regard the second paragraph, the OECD arrangement, and as a matter of fact the entire illustrative list provides a basis for U.S. law, but does not constrain U.S. law.

We, therefore, believe that, as a matter of American law, the Commerce Department is free to construe it any way that it wishes to, and that we are not constrained by the subsidies code at all in what we can do as a matter of U.S. law in this particular respect.

Chairman GIBBONS. I want to say I am very concerned about any subsidy or any dumping of imports that come into this country. While I appreciate that the OECD is trying to reach some gentleman's agreement on what is fair and what is just and proper in this very disorderly area of interest rate subsidies and export subsidies, I am worried that that is always being used as a substitute for really getting down to brass tacks on the issue. I want to know what is the attitude of this government toward that.

Are we going to pursue this in a forum other than the OECD? Are we just going to let the gentlemen try to decide what is fair and proper?

Mr. DEKIEFFER. Mr. Chairman, I think Ambassador Brock has made it very clear on a number of occasions that it is the policy of the administration to oppose subsidized export credit rates, that we use the OECD arrangement and the arrangement with regard to aircraft and others as an informal mechanism of trying to encourage other countries to get their interest rates to bear a more reasonable relationship to market rates.

We do not, however, regard the informal arrangements or the OECD arrangements as being binding as a matter of U.S. law. Ambassador Brock has made it very clear we intend to enforce U.S. law, and the arrangements that we do have in OECD also do not by and large restrict our ability to raise thse same kinds of issues in other international fora, including the GATT and the subsidies code.

As a matter of U.S. law, we believe U.S. law speaks for itself and stands on its own. The agreements are not a substitute for the full and effective enforcement of American law. I don't think either this administration or any other administration I am aware of ever intended they be regarded as a substitute for the full enforcement of American law in the United States.

Maybe Mr. Horlick would like to speak to that?

Mr. HORLICK. Obviously we apply the statutes.

Chairman GIBBONS. Good.

Mr. Horlick, as you know, we have before this committee a rather complicated proposal to amend 3(a) of the Tariff Schedule of the United States with respect to the development of light industry in the insular possessions.

What is your opinion of this program?

Mr. HORLICK. In general we think the congressional intent has had a few successes such as pharmaceuticals, which somewhat enhance the territories' ability to progress.

The one major success, the watch industry, we feel is in imminent danger of coming to an untimely end. There has been a decline in demand for the standard 17-jewel watch, a shift to Hong Kong and Japan.

The net result has been really dramatic.

Let me give you figures. Two years ago there were 14 companies operating in the Virgin Islands making watches under this program. Today there are eight and we expect that to go down.

In 1973, the industry provided 1,200 jobs to the Virgin Islands and today the total is 450 and could be zero a year from now.

A thousand jobs is a lot. In an economy like the Virgin Islands, it is the equivalent of losing the auto industry for the United States.

It is a massive impact. If they go down, the only alternative is going to be direct public assistance to those people which costs the Government a lot of money.

Accordingly, we have been working on a set of proposals we hope to submit to the Congress next session.

I frankly look forward to working with your staff on those proposals because we feel a responsibility to the insular possesssions that these programs were set up to help develop light industry and we feel if changes are needed in these programs, we will very promptly come to the Congress seeking those changes.

The goal remains the same, to give these possessions of the United States a chance to basically stand on their own feet rather than live off the Government dole.

Chairman **Gibbons**. Further questions or comments?

Mr. **Frenzel**. Mr. Chairman.

Chairman **Gibbons**. Mr. Frenzel.

Mr. **Frenzel**. Mr. Chairman, I am sorry I had to leave the room for a while.

Mr. deKieffer, we have changed our antidumping and countervailing statutes as a result of the MTN. We now see proposals to change the Canadian system.

The United States, including its trade representative, has been critical of the proposed changes, particularly with respect to whatever they call it, nontransparency and the lack of any kind of appeal from a single decision.

Is there an indication that the Canadian Government may be coming down from its original proposals?

Mr. **deKieffer**. Yes, Mr. Frenzel. We have had both overt and private indications that the original Canadian proposals to change their antidumping laws are being rethought in Ottawa.

In particular, only 2 weeks ago, the Canadians, along with ourselves, the European Community and for that matter the rest of the members of the subsidies code committee in Geneva adopted a base pricing policy which effectively would have had an enormous impact upon the proposed Canadian policies.

The Canadians themselves agreed to this.

The base pricing statement went right to the heart of at least our understanding of what the initial discussions of the—the Canadians were internally considering the use of base pricing not like trigger pricing, as here, but as an effective legal price floor, almost a guilty-until-proven-innocent rule.

In other words, if am exporter sold below this price, bonding would be required; the payment of extra duties would be required, and then they would investigate. I think while the base pricing agreement that we were able to come to on the subsidies code committee was a step in the right direction, it will certainly slow down the kinds of considerations that the Canadians are giving to it.

The Canadians have also indicated to us informally that they are taking another look at a series of proposals before them with regard to the initiation of cases and the transparency questions that you alluded to.

I think it would be premature right now for us to speculate as to exactly what the Canadians will ultimately do.

I know they are sensitive to our concerns. They have listened to us in this regard. We have every hope that they will not adopt a system that would not only be discriminatory toward us, but in my view some of the suggestions that have been made would have at least arguably violated some of the international undertakings.

If the Canadians or, for that matter, anyone else, adopts policies that are inconsistent with the code or with GATT obligations, we certainly are not going to sit still for it. We will object, particularly to the extent that they discriminate or have the effect of discriminating against American companies.

A good example of this is the Chileans have announced they intend to put in a countervailing duty law. Both formally and informally. At the most recent code committee meeting, they distributed this law to all the delegates and asked for comments.

I think that is the kind of responsibility we would like to see from our trading partners.

We will have to wait and see whether they adopt the comments that we have made, but we will not stand still for procedures that have the effect of discriminating against American corporations' exports.

Mr. **Frenzel**. That is welcome news. I hope the Commerce Department reads our draft agreement, or rather our GATT statement on monitoring schemes. I note that it says that the committee agreed that such schemes shall not be used as a substitute for initiating and carrying out antidumping investigations in full conformity with all provisions of the agreement.

I am sure Commerce agrees with that statement, although some of us were a little confused about that.

I think you have made that clear today.

I don't recall the Secretary saying this when he came before us, but before a higher forum, the Senate Steel Caucus, he indicated that he was going to eliminate the preclearance program under TPM.

Have you done that? And, if so, why are you doing it?

Mr. **Horlick**. Yes, we have done that. The preclearance program in my view doesn't conceptually fit terribly well with the concept of trigger prices as representing a predictable lowest, most efficient producer.

The second point really is this is administratively an enormous burden.

The third point which I feel is the underlying one, the crucial one, is very simple.

We don't give out certificates of good conduct to people promising them that they are not violating the antidumping or countervailing duty laws.

If someone wants to import steel, widgets, or anything else, into this country, they are welcome to. They can read the statutes, we publish them. We publish the regulations, our decisions.

They can make their decision of whether or not they are in violation of those statutes. They don't need the Commerce Department to give them a badge saying they are OK.

Mr. **Frenzel**. The problem is that TPM says, I think, in concept that anybody selling under TPM is ipso facto, prima facie, guilty of dumping. The preclearance provision allowed somebody who was shipping under TPM to get some kind of a preclearance that it was not dumping if, in fact, it wasn't.

It seems to me that if you are going to get a number of dumping cases now with TPM in operation, they should be well advised to have preclearance because it would save you a lot of trouble of messing with the cases later in greater detail.

Mr. **Horlick**. I don't really disagree with you in concept much.

Mr. **Frenzel**. Let me explain my concern here. It relates to the same question I asked you earlier. It is that the executive branch has set regulations to take the place of laws. That is always dangerous and usually causes minor affronts when you come to see the people who wrote the laws.

We can expand them, but when you turn them on and off on a discretionary basis, you make us much more nervous. Either you have TPM or you don't.

It seems to me if you don't want preclearance, you don't want TPM. Maybe you ought to can the whole thing and go back to the law of the jungle and sue.

I think that is Mr. Gibbons' preference. I think it is mine, too.

If somebody is dumping, they ought to be sued and the law ought to work.

Mr. **Horlick**. I think it ties in with your comment about the Canadian system as well. As we envision it, under the trigger price mechanism, we are not really doing what Don referred to as a shoot first and ask questions later—a guilty until proven innocent.

All the trigger price violations lead to is for us to examine the situation to see if there is any other evidence of dumping or subsidization.

We would not initiate a case without that other evidence. Consequently, what you did on the preclearance was go out and investigate whether somebody was dumping or being subsidized. What we do without a preclearance system—we are very straightforward about it.

If someone is selling below trigger prices, and we start getting substantial quantities of it, we look around for evidence of that. That is all the trigger price mechanism is supposed to do, so, in effect, you are doing the same sort of examination.

You are just not telling people in advance. Again, we are not telling people that they can't sell below trigger. They are welcome to.

As the chairman pointed out, steel companies in the United States are not exactly pitiful, helpless entities. Neither are they abroad.

A number of them have gone to great expense and run through computers at great length to figure out—to find out at what level they are dumping or being subsidized.

Mr. **Frenzel**. It looked to me like the Secretary was trying to throw a cookie to the steel caucus and make them feel better by indicating he was stiffening up the TPM and at the same time he was talking about killing the TPM as a response to the filing of antidumping suits.

I think he has to do one or the other. He has to have TPM or he doesn't have to have TPM. My advice to you and to him is to make up your collective mind as soon as you can and do it or don't do it.

Mr. HORLICK. I will convey that to the Secretary. It wasn't intended one way or the other as far as I know. It was an administrative burden, something we felt conceptually didn't fit in with anything else we do under the laws.

Mr. FRENZEL. If the intent was solely to relieve administrative burden, we will pin a rose on the department.

Mr. HORLICK. Thank you.

Mr. FRENZEL. It looks to me like there are many other ramifications of that statement and of that whole presentation.

Mr. Chairman, I yield the balance of my time.

Chairman GIBBONS. Mr. Horlick, we will excuse you.

Mr. Alberger, if you will stay at the table, and Mr. deKieffer, we will now call Leo Mayer, Associate Administrator, Foreign Agricultural Service, and Ms. Ann Hughes, Deputy Assistant Secretary for Trade Agreements, Department of Commerce.

Let me make it clear, Mr. Alberger is speaking only on his own behalf and not on behalf of the Commission.

Mr. deKieffer, you are listed first. Will you proceed?

STATEMENT OF DONALD deKIEFFER, GENERAL COUNSEL, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Mr. DEKIEFFER. I am extremely pleased to be able to testify at these hearings.

As Ambassador Brock testified only a few weeks ago, the United States is extremely concerned with increasing American competitiveness at home and abroad.

We believe the best climate for this can be maintained through the fair and open administration of U.S. import laws.

In the last decade, international trade has continued to become more important to our economy. While exports doubled as a percentage of GNP, so that today over 19 percent of all goods we produce are exported, imports have also become correspondingly more important.

The percentage of imports to our GNP has also doubled over the same period of time. Now imports equal more than a fifth of domestic production.

What this means is that U.S. import laws have become more important over the past decade.

First, because of the impact these laws have on our domestic markets and, second, because our import laws can have an indirect impact on foreign markets of importance to our businesses, our workers, and our consumers.

As a matter of policy, this administration is committed to a fair and open trading system.

We believe that to be in our national interest. The United States has long sought and obtained international agreements to establish fair rules of the road for world trade.

The executive branch and the Congress have made U.S. import laws and their administration consistent with those internationally accepted rules.

In doing that, we set an example for open and fair treatment of foreign trade. That too serves our national interest.

This strong preference for an open trading system does not, however, mean that we should be timid in enforcing our trade laws or our rights under international agreements. Nor does it mean that we should expect our trading partners to do other than we would do ourselves.

The United States and its trading partners have negotiated international agreements to reduce barriers to trade and to establish common ground rule to limit trade-distorting practices.

These agreements are predicated on the fact that trade must be a two-way street in a genuinely open trading system.

In the multilateral trade negotiations, agreement was reached on new international codes of conduct covering a wide range of nontariff barriers.

U.S. trade laws and international dispute settlement procedures provide the means for effective enforcement of these international trade agreements.

The administration will strictly enforce U.S. laws and international agreements relating to international trade.

Specifically our antidumping, countervailing duty, and similar structures are designed to neutralize or eliminate trade distortive practices which injure U.S. industry and agriculture.

We regard these laws as essential to maintain the political support for a more open trading system.

We will insist that our trading partners live up to the spirit and the letter of international trade agreements, and that they recognize that trade is a two-way street.

Accordingly, we will closely monitor the implementation of international trade agreements by all governments and we will make full use of all available channels for assuring compliance.

We will need full and active support from the private sector in identifying compliance problems and in seeking solutions.

The manner in which the MTN codes are applied will determine the shape and effectiveness of the GATT agreements. We will actively pursue the implementation of the codes in a manner consistent with the goal of reducing trade barriers and trade-distorting measures. We will fully utilize the consultation and dispute settlement procedures of the GATT to assure that MTN principles are applied in practice.

One of the most difficult challenges we must face in seeking to achieve free trade is to develop appropriate responses to the growing intervention of foreign governments in international trade. The nontariff agreements negotiated in the multilateral trade negotiations deal with many aspects of such intervention, and full enforcement of these agreements will help deal with this issue. We will seek new ways of dealing with forms of intervention that are not covered by these agreements.

Mr. Chairman, rather than review specific actions under individual trade laws at this time, I will, with your agreement, provide a summary of recent trade actions for the record.

I am, of course, prepared to answer any questions you may have on overall policy or individual cases.

Chairman Gibbons. Thank you, sir.

It will be made part of the record.

Mr. Alberger, do you have a statement at this point?

STATEMENT OF BILL ALBERGER, CHAIRMAN, U.S. INTERNATIONAL TRADE COMMISSION (ON HIS OWN BEHALF)

Mr. **Alberger**. Yes; I do. Thank you, Mr. Chairman.

Let me begin the second part with section 201. I think the members of this subcommittee are well aware that there has been very little activity in this area recently. In general, the statute works well. The standards are clear and straightforward, and the Commission has little difficulty administering the law.

At the time of our decision in the automobile case, there was some discussion of whether the majority properly assessed the relevant causal considerations in applying the substantial cause test.

That discussion seems to have died down, but we have had only one petition in the intervening period. I will be pleased to respond to any questions if there are concerns in this area.

One issue that has recently surfaced is whether there is a need for additional attention at the Commission to the question of adjustment. Section 201 states that

> The Commission shall for the purpose of assisting the President in making his determination * * * investigate and report on efforts made by firms and workers in the industry to compete more effectively with imports.

While this is certainly appropriate, the real focus in awarding relief ought to be on whether the industry concerned can realistically adjust to the point where it can meet import competition head-on at the end of the relief period. If our escape clause statute is to be a true adjustment mechanism, there must be a more practical appraisal of whether a particular industry can utilize import protection to shift its product mix, improve efficiency, or enhance the quality of its product. Perhaps petitioners should be required to provide detailed adjustment plans as a prerequisite to relief. There should be more emphasis on this question in the Commission's deliberations, and any legislative guidance would indeed be helpful.

The final statutory relief provision I would like to mention is section 337, our general unfair competition statute. We have witnessed a substantial increase in petitions for relief under this law, and while most of these involve claims of patent infringement, there is an ever increasing number of cases based upon trademark or copyright violations, misappropriation of trade secrets, unfair advertising and other theories. Many of the cases involve sophisticated technology in the area of computers, medical equipment, production processes and scientific equipment. The trade impact in terms of both volume and dollar amount has grown substantially, and these cases often involve make-it or break-it situations for both litigants.

I think the tendency toward greater use of section 337 reflects the growing complexities of international commerce. Domestic industries are becoming more concerned with the proliferation of import practices that violate established principles of U.S. law. However, the desire to avoid using this law as a nontariff barrier which might unintentionally affect innocent parties has led, I think, to a greater degree of concern with the precision of our remedies. We hope that we have alleviated some potential trade disputes by a sharper focus on the part of our determinations.

A final area of concern, unrelated directly to import relief laws, is how to deal effectively with emerging trade issues—particularly trade in services—so that the Congress and the trade agencies are able to develop coherent policies and adequate expertise. The administration has heightened the public focus on the issue of trade in services, as well they should. As an alumnus of the staff of this august committee, I have more than passing concern and interest with how the consideration of these issues is handled jurisdictionally in the Congress.

As you well know, the Constitution gives to the Congress special powers in the area of foreign trade and commerce that are reserved more specifically to the executive in other foreign policy matters. Likewise, this committee has certain prerogatives as the revenue raising committee in the House to initiate tax legislation. That authority often extends to trade matters as well. Specific service issues are generally within the jurisdiction of other congressional committees unless taxation or perhaps trade is the predominant focus.

However, trade in services that is unrelated to transactions involving goods is difficult to view in the context of normal trade law. It is not monitored at entry by Customs. Some of the pertinent laws and regulations in the United States are State rather than Federal ones. It does not fit neatly within the GATT system, and many foreign governments do not view service questions as appropriate subjects for trade negotiations.

I raise these concerns because I believe the members of this committee should give trade in services their full attention. Negotiating authority is probably required for the executive branch to pursue meaningful objectives. How are those objectives to be defined? What are the parameters for negotiations? It has traditionally been a key role for this committee to craft the outline of the process—as the Trade Act of 1974 was the outline for the Tokyo round negotiations. However, a number of questions relating to committee and agency jurisdiction must be resolved before there is a clear government focus in this area. Planning should be under way now for the fulfillment of that role.

Second, I wonder what the committee's desires are with respect to the future role of this commission as an adviser and factfinding body in the area of trade in services. We are concerned about this matter, and I have attached to my statement a copy of my memorandum of July 17 to the Commission and office directors relating my ideas.

We have initiated one study in this area—Investigation 332-132—but have not made any structural adjustment to build up our expertise in specific service sectors. That will have to be deferred, in part due to budget considerations, but we really seek some guidance from our authorizing committees as well.

Finally, I wonder whether services trade issues should be addressed under any of our import relief statutes and, if so, whether specific amendments are necessary. That issue probably does not require immediate attention, but should be the subject of some detailed review.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF BILL ALBERGER, CHAIRMAN, U.S. INTERNATIONAL TRADE COMMISSION

Turning to section 201, I think the members of this subcommittee are well aware that there has been very little activity in this area recently. In general, the statute works well. The standards are clear and straightforward, and the Commission has little difficulty administering the law. At the time of our decision in the automobile case, there was some discussion of whether the majority properly assessed the relevant causal considerations in applying the "substantial cause" test. That discussion seems to have died, but we have had only one petition in the intervening period. I will be pleased to respond to any questions if there are concerns in this area.

One issue that has recently surfaced is whether there is a need for additional attention at the Commission to the question of adjustment. Section 201 states that "The Commission shall for the purpose of assisting the President in making his determination, . . . investigate and report on efforts made by firms and workers in the industry to compete more effectively with imports." While this is certainly appropriate, the real focus in awarding relief ought to be on whether the industry concerned can realistically adjust to the point where it can meet import competition head-on at the end of the relief period. If our escape clause statute is to be a true adjustment mechanism, there must be a more practical appraisal of whether a particular industry can utilize import protection to shift its product mix, improve efficiency, or enhance the quality of its product. Perhaps petitioners should be required to provide detailed adjustment plans as a prerequisite to relief. There should be more emphasis on this question on the Commission's deliberations, and any legislative guidance would indeed be helpful.

One problem noticeable to an administrator of section 201 is that few foreign countries have formal procedures for invoking equivalent measures. This due in part to the lack of internationally agreed procedures and standards for applying safeguards measures like the escape clause (article XIX of GATT). In administering section 201, the United States follows the same philosophy that it does for other import laws. There are strict statutory standards, and the ITC conducts public hearings and issues a public report which explains and supports its findings. This is not the situation worldwide. A safeguards code is still the subject of negotiations, however, and hopefully will successfully move our trading partners toward more rule-oriented safeguards procedures. The gap left by the absence of such a code is distressing. Without a comprehensive system of international rules that includes all methods of import relief, governments would be free to pursue the path of least resistance, relying on discretionary means where they do not want to follow strict rules. This could place the United States at a disadvantage with respect to countries which do not accept our strict legal approach.

In the past 2 years the Commission has received several requests from the President for investigations pursuant to section 22 of the Agricultural Adjustment Act. As you know, this law requires the Commission to examine the relationship between imports and a particular price support program. We are presently conducting such an investigation with respect to casein, so I do not want to say anything here that would prejudice the case. I no not believe there are any serious problems with the present operation of the law, but the spate of recent decisions may provide the Congress with an excellent opportunity to review our work and decide if the overall objectives are being met. We always welcome additional clarification and guidance as we attempt to administer these laws in line with the stated intent of the Congress.

The final statutory relief provision I would like to mention is section 337, our general unfair competition statute. We have witnessed a substantial increase in petitions for relief, and while most of these involve claims of patent infringement, there is an ever increasing number of cases based upon trademark or copyright violations, misappropriation of trade secrets, unfair advertising and other theories. Many of the cases involve sophisticated technology in the area of computers, medical equipment, production processes and scientific equipment. The trade impact in terms of both volume and dollar amount has grown substantially and these cases often involve make-it or break-it situations for both litigants.

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A final area of concern, unrelated to import relief laws, is how to deal effectively with emerging trade issues—particularly trade in services—so that the Congress and the trade agencies are able to develop coherent policies and adequate expertise. The administration has heightened the public focus on the issue of trade in services, as well they should. As an alumnus of the staff of this august committee, I have more than passing concern and interest with how the consideration of these issues is handled jurisdictionally in the Congress. As we well know, the Constitution gives to the Congress special powers in the area of foreign trade and commerce that are reserved more specifically to the Executive in other foreign policy matters. Likewise, this committee has certain prerogatives as the revenue raising committee in the House to initiate tax legislation. That authority often extends to trade matters as well. Specific service issues are generally within the jurisdiction of other congressional committees unless taxation or perhaps trade is the predominant focus. However, trade in services that is unrelated to transactions involving goods is difficult to view in the context of normal trade law. It is not monitored at entry by Customs. Some of the barriers in the United States are State, rather than Federal ones. It does not fit neatly within the GATT system, and many foreign governments do not view service questions as appropriate subjects for trade negotiations.

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Secondly, I wonder what the committee's desires are with respect to the future role of this Commission as an advisor and factfinding body in the area of trade in services. We are concerned about this matter, and I have attached to my statement a copy of my memorandum of July 17 to the Commission and office directors relating my ideas. We have initiated one study in this area—(332-132)—but have not made any structural adjustment to build up our expertise in specific service sectors. That will have to be deferred, in part due to budget considerations, but we really seek some guidance from our authorizing committees as well.

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U.S. International Trade Commission,
Washington, D.C., July 17, 1981.

MEMORANDUM

To: The Commission office heads.
From: Bill Alberger.
Subject: Trade in the 1980's—The ITC role.

Changes are occurring rapidly in international trade. I am concerned that this agency keep pace, and be in a position to maintain our role as a reliable and effective factfinding body possessed of extensive expertise in trade matters.

Tariffs were clearly the major focus of efforts in multilateral trade negotiations prior to the Tokyo Round and were also one of the most significant concerns in that Round as well. However, various non-tariff barriers became matters of paramount concern in Geneva, and the implementation throughout the world of the various codes negotiated there remains a principal concern of the policy makers in the U.S. Government.

The end result of the Tokyo Round in terms of tariffs are that tariffs are a much less significant barrier to trade in commodities than previously. The focus has shifted to more subtle, but very real barriers. The non-tariff measure codes are recognized as a significant first step in attempts to reduce such barriers, but there are many non-commodity based barriers completely untouched by these codes.

Trade in services was basically unaffected by the codes, yet clearly barriers exist in such forms as discriminatory tax treatments, complex licensing requirements for insurance companies and banks, preferential shipping agreements and restrictions on foreign advertising. Of course, negotiations in some of the fields, such as insurance and banking, are necessarily complicated by our own U.S. structure of state regulation. In the area of foreign investment, numerous national policies exist that act both to inhibit or preclude such investment or to encourage it. For example, repatriation of earnings is restricted in some countries. Others provide incentives for location in certain areas of high unemployment, or for export. Trade in technology also is complex and frustrated by barriers. The U.S. has concerns about the exportation of technology and the terms and conditions surrounding such transfers. Our comparative advantage in many service areas is probably dwindling, and we may be missing major opportunities due to our export restraints.

All of these areas—1. Non-tariff measures reflected in the Geneva Codes and other such problems with trade in commodities; 2. Trade in services; 3. Foreign investment; and 4. Technology transfer;—are of major concern to the policy makers in the Administration and in the Congress. In a very real sense, expertise in most of these areas is not abundant in the USITC, but it is also not abundant anywhere in the U.S. Government. Our traditional agency expertise has been in commodities and U.S. tariff and customs structure and procedures. Our concentration has always been on import problems, and certainly remains so today. Our overall mandate as reflected in the Trade Act of 1974 suggests that we are expected to be more, and I do not merely mean that our expertise must extend to exports. I believe we must begin to make some critical judgments now about our role and the demands that logically should and will be placed upon our agency in the trade structure of the government for the remainder of this century. Our historical function in fact-finding and analysis, as distinct from policy-making, can and should be translated in some meaningful form to help develop information and approaches to addressing some, if not all, of these four major problem areas.

This obviously raises a number of fundamental questions that must be considered, and there is no doubt that this list is far from all-inclusive—

1. Should our role as the U.S. International Trade Commission encompass such issues as trade in services, technology transfer and investment? If so, what expertise should we develop? When should we begin to develop it? How should it be organized? Do we need a banking division, an insurance division, etc.?

2. How do we define proper limits on our role in these areas to reflect our independent nature and our non-policy making history? Are there clear distinctions between a proper executive branch role and an independent agency role in these fields? Are the Congressional prerogatives in tariffs and trade as clear in these areas as distinct from Executive Branch authority?

3. Are there specific research projects which demand immediate or short term attention which require an ad hoc organizational structure, such as we employed for our MTN anaylsis for the Congress? Would such work be duplicative of efforts of other agencies or require coordination? How do our parent Committees in Congress see the need for our involvement?

I want each of you to give these matters careful consideration, discuss them among yourselves and with top staff working for you and provide your own individual and/or joint responses in the way of recommendations and comments. There are obviously overtones here that may require consideration in the fiscal year 1983 budget process. That consideration requires immediate attention, but we should not take action here without thoroughly evaluating all options.

Chairman **Gibbons**. Thank you, Mr. Chairman. That was an interesting statement, particularly on services.

I am glad that you brought that to our attention. I think it is something we need to work on.

Mr. Mayer?

STATEMENT OF LEO MAYER, ASSOCIATE ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, DEPARTMENT OF AGRICULTURE

Mr. **Mayer**. Thank you, Mr. Chairman.

Let me just make a few comments. I don't have a prepared statement. It does strike me as I sit here and listen to the discussion over steel and these other issues that there is a substantial difference in terms of the perspective that we bring to these hearings from the standpoint of agriculture.

I think I need not stress the growing importance of exports to our Nation's farmers.

A decade ago, perhaps 10 percent of those farm receipts came from international sales. This year almost 30 percent of all our farm product sales will go into international markets. That illustrates how much more important exports are becoming to our farmers.

Continuing to have access to these foreign markets is absolutely essential if our farm families are to earn improved incomes. It is this reality that lies behind the Department of Agriculture's strong efforts to move other nations toward a freer world trading system.

It is the same reality that leads to our support for international agreements that give us an opportunity to challenge unfair trade practices of other nations.

Of special interest to us has been the subsidies code, because of the subsidized exports of our competitors and particularly the European Community, we are prepared to support the efforts of the U.S. Trade Representative relative to actions taken that affect agricultural products.

The second code which USDA has a special interest in is the standards code, technical standards being one of the methods used by other nations to restrain or even shut out some of our own exports.

I can mention the case of poultry into Britain as an example. Technical processing standards were used to prevent the entry of broilers from the United States.

At this time, however, the standards code is inadequate to prevent this type of restriction. Perhaps in the future, we can make further improvements that would allow coverage to expand to processing as well as the production of products.

On the other side, on the import side, we have long had protection against subsidized exports from other countries if these imports were covered by a price support program in this country.

Here I refer to section 22 of the Agricultural Adjustment Act of 1933 as amended. It is providing authority for the Secretary of Agriculture to initiate action when subsidized imports were thought to interfere with the operation of a price support program.

Two recent examples are tobacco and casein, which is still under consideration by the International Trade Commission.

Let me close with one additional observation. While we support the international codes as a means of encouraging a more open trading system, we do not depend on those codes for maintaining the U.S. share of world markets. The foreign agriculture service has a number of other action programs that assist cooperator groups in expanding overseas markets. We expect to continue those market development programs in an aggressive effort to expand U.S. farm exports.

A decade from now, we may well come back here and see that 40 percent of our farm gross receipts come from international sales.

I think if this occurs, this committee, as well as other partners in the trading system such as those sitting here at the table, can take a certain amount of credit.

Thank you, Mr. Chairman, again for the opportunity to discuss these issues.

Chairman GIBBONS. Ms. Hughes?

STATEMENT OF ANN HUGHES, DEPUTY ASSISTANT SECRETARY FOR TRADE AGREEMENTS, DEPARTMENT OF COMMERCE

Ms. HUGHES. Thank you, Mr. Chairman. I do not have a prepared statement, but I would like to join my colleagues on the panel in answering any questions that you may have.

Chairman GIBBONS. Let me lead off with one question and then I will turn it over to the other members who are here.

This has to do with the application of import laws to services. As of now our antidumping and countervailing duty laws apply to imports of merchandise and import relief laws and section 337 apply to imports of articles.

What are your views on the need for laws to deal with import competition or with foreign dumping, subsidization, or other unfair trade practices with respect to imports of services?

To what extent might existing laws be suitable for extension to services or are new laws with different approaches needed?

I am sorry that is a complex question, but I think it gives you plenty to comment on.

Mr. DEKIEFFER. Mr. Chairman, let me take a crack at that. You are correct in your analysis that neither the antidumping nor the countervailing duty laws are specifically directed toward services; however, we do have precedent under section 301 for at least attacking unfair practices abroad in the service area.

It occurred only last year, as a matter of fact, in the case of insurance in a dispute that we had with Korea.

I think that it is a bit early to tell yet whether section 301 could be effectively used in other service areas, particularly in the question of subsidized services being offered in the U.S. market.

A number of examples come immediately to mind. As you are aware, there have been allegations that certain foreign carriers doing business in this country—air carriers, merchant marine, that sort of thing—are in fact receiving operating subsidies for providing a service. I think it is premature currently to say whether section 301 is capable of reaching them.

It is difficult to predict what the outcome would be in an international context.

I would, however, believe that it would be appropriate for this committee to watch very carefully to see whether existing law is, in fact, effective in an international context; if it is not, then I think it would be appropriate to consider legislation that would enable us to take more effective action against subsidized—particularly subsidized or unfairly priced services that are sold in competition with American enterprise.

I don't believe, however, that we really know yet, because there haven't been very many cases.

Nobody has really tried to test the law. We have only had experience in one case; that happened to be successful, to the satisfaction of the domestic industry.

However, we have not had the kind of experience with the kind of operating subsidies to which you referred.

It could very well be that a year from now, or beyond, that it becomes evident that our current laws are not adequate and that we would need to come and ask for additional legislative authority.

I do not believe we are asking for that now.

Again, I should stress that nobody has brought very many of these 301 cases to us on service items. There has only been one; arguably, two.

Mr. **Alberger**. Mr. Chairman.

Chairman **Gibbons**. Maybe it is working so well we ought not to do anything about it. We have a tremendous surplus in services. I just am opining that if it is not busted, maybe we ought not to fix it.

Mr. **deKieffer**. Mr. Chairman, I have not quite been as sanguine about that. I believe, as our trading partners realize, we have a real edge in services that they are going to try to crack the service market. I don't believe we should tolerate unfair business practices, even where we are already very successful.

I don't believe the current lack of cases indicates necessarily that some of our trading partners are not engaged in what would otherwise be regarded as unfair practices at all. But it is a very new area of the law. The law has not been tested. Nobody has brought cases.

I don't think that we are going to go out and force an industry to bring a case, but we would certainly be anxious to see whether the law could work. It worked once. It might work again.

Mr. **Alberger**. Mr. Chairman, let me offer a few other thoughts on this area. I think, as Don said, countervailing and antidumping laws probably are not too useful here; namely, because this is not the normal importation of goods through Customs. Thus, application of normal antidumping or countervailing duties would not be a practicable remedy.

It may be that, while section 337 in its statutory language is clearly limited to merchandise, the kinds of remedies available under section 337 might be crafted to deal with some services problems. I am thinking particularly of the cease and desist power. It is possible that this remedy could be used effectively. An exclusion order obviously would be a bit of a problem, since, again, importation is not through Customs; but I think we really have to await further study and further representation of concern by domestic industries that something needs to be done, before we move in this area.

But it is worth looking at our overall statutory structure to see whether there are some areas where we could fashion our current statutory provisions to cover trade in services.

Chairman **Gibbons**. Mr. Frenzel?

Mr. **Frenzel**. Thank you, Mr. Chairman.

Again, I am indebted to the panel for its testimony. I appreciate it very much.

Chairman Alberger, there have been allegations that our section 337 is being increasingly used by users who have not been able to get other kinds of relief, and that it is sort of a second shot for them. Do you have any comment on that? Is that a legitimate criticism?

Mr. **Alberger**. I have not heard that criticism, as you expressed it. I am not aware that we are receiving cases where patents, for instance, have been found invalid in Federal courts. It seems to me if we find those circumstances, they are not going to succeed before us, either, because they are going to have a slight res judicata problem to deal with.

Mr. **Frenzel**. Good. I am also advised that our friends to the north have criticized this section on the basis that it violates the national treatment concept, because apparently domestic firms have a different forum than foreign firms, and would you like to comment on that at all?

Mr. **Alberger**. I am not sure whether I am the appropriate commentator or Don is.

Mr. **Frenzel**. I would ask Mr. deKieffer.

Mr. **deKieffer**. Mr. Frenzel, you are correct. At the November 3 GATT Council meeting, the Government of Canada requested the formation of an article 23(2) panel to consider whether USITC order, excluding imports of spring assemblies, which are parts of a clutch, which have been found to violate two U.S. patents causing injury to a domestic industry in conformity with the treatment provisions of GATT article III. The United States has taken the position that we are exempted by article 20 from GATT requirements. Even absent that exception, the action taken by the United States conforms to its obligations under article 3.

With regard to the Canadian case, we believe that the Canadian complaints are without merit. We intend to fully fight them in a panel. We have told the Canadians as of last Thursday we would not object to the formation of a panel immediately, and that we would vigorously oppose the Canadian allegations.

As you are aware, section 337 has been around for quite a while. We believe that the Canadian allegations are based upon a suggestion that before a domestic industry or company, manufacturing a product which has allegedly violated or infringed, they must sue all domestic infringers as well.

In our view, the Canadian suggestion is manifestly absurd. I think I have used language or words to that effect with the Canadians as well as intend to make those same kinds of arguments before the GATT panel.

We hope for a speedy resolution of the issue and a satisfactory one. I don't believe for a moment that section 337 is a violation of any of our international undertakings.

Mr. **Frenzel**. Thank you, Mr. deKieffer.

Mr. Mayer, as I understand it, section 22 has been hanging around since 1933, and that it was adopted into the GATT as a special exception for the United States.

As we go around the world trying to unhinge the common agricultural policy and put some rationale into agricultural trading with the Japanese, who have perhaps a worse subsidy system than the European Community, how are we going to defend section 22?

Mr. **Mayer**. Well, I think, Mr. Frenzel, we have already taken one step in the Tokyo round of multilateral trade negotiations to bring it perhaps better in line with the international trading system. That is, we did accept the injury test for countervailing duty cases. We shifted from simply acting without any signs of injury before the Tokyo round to now, when there is a complaint, sending it through the International Trade Commission, and letting them find out if there is room for indications of injury.

So I don't, myself, find a great deal of problem now with section 22, since the injury test also applies to it. Prior to the countervailing duty change, there was considerable complaint, particularly in the Tokyo round, that we did not conform to GATT procedures.

Mr. **Frenzel**. Let me assure you, there is still considerable complaint around. Our problem is that when we go and visit with people and suggest that they change their programs, they always have a long list of suggestions for us, and invariably section 22 is on that list.

Mr. Chairman, I have no further questions at this time.

Chairman **Gibbons**. Mr. Pease?

Mr. **Pease**. I have no questions, Mr. Chairman.

Chairman **Gibbons**. Mr. Bailey?

Mr. **Bailey**. I think the earlier part of the hearing was very enlightening and informative, Mr. Chairman. I have no further questions at this time.

Chairman **Gibbons**. I didn't mean to cut everybody off just because I feel strongly about steel.

Mr. **Bailey**. You didn't.

Chairman **Gibbons**. All I want to see is that they come into court and exercise their rights instead of running around hiding in caucuses around the Hill.

Mr. **Bailey**. Oh, Mr. Chairman.

Chairman **Gibbons**. You know, we provided a whole set of laws for the steel people—the steel people and all other Americans. The steel people feel they can't bring a case in court unless they get the Government to be the prosecutor and the judge. I sort of resent that. I think either the laws are terrible and we ought to reform them for everybody, or the steel people ought to be able to bring a case.

Mr. **Bailey**. Mr. Chairman, I think, in all fairness, in those situations, I think part of the difficulty really has to do with the problems that any complainant would have with discovery techniques, gaining information to a fair fight.

Let me finish, Mr. Chairman, please.

To verify some of the problems that they have: One of the difficulties is—and we quoted it for the multilateral trade negotiations. There is a real problem with it. A complainant has limited access to foreign forums and limited access to process, to collect information in order to verify. These are very expensive suits.

These companies are in positions where they are often jawboned by the Government for certain purposes. In all fairness to them, when it comes to dealing with a relationship overseas, between an industry and its government, they, as a private complainant, are really at a tremendous disadvantage. There are other implications, also.

Chairman **Gibbons**. I have read their advertisements, those big Time magazine double-page ads they buy. If they have enough money to buy those things, they can sure hire somebody to go out and find facts. They could find a lot of facts for what they pay Time magazine.

Mr. **Bailey**. Finding facts and putting them in a legally usable court form are two totally different things. I would end by saying that I think it is common knowledge that various degrees of whatever that word subsidization means, various degrees of it exist in quite different form than they exist in this country. I think it is very difficult to deny. Both administrations, Reagan and Carter, have pretty much recognized that fact.

You can't expect people to operate in an investment or regulatory environment when the future is so uncertain, because it is clouded with those very same uncertainties that have put them in a difficult capital investment posture in the first place.

Chairman **Gibbons**. You are making an excellent argument for us shouldering all the costs of all these actions that are brought. If one of the biggest industries in America cannot afford to bring its own case, how can we expect small industries to bring their cases?

Mr. **Bailey**. Mr. Chairman, they have brought them. As was pointed out earlier today, they have brought the vast bulk of cases. Quite frankly, I think we also know that many times when they have wanted to, they have been discouraged from doing so. It is not just—it just hasn't been that open and simple an environment where they can go out and gain access to information and bring a case. It just has not been that simple. I wish that it were. Maybe it would make all of our jobs easier.

Chairman **Gibbons**. I realize nothing in life is simple. I cannot understand why steel people can buy large advertisements in expensive, very expensive, magazines and periodicals, saying all they want is fairness under the law, and then not even come in and bring a case, not even have to, and have the Government bring the case for them.

Mr. **Bailey**. I think in some cases they have——

Chairman **Gibbons**. If we can't expect them to bring cases, how can we expect the small companies around America to bring cases?

Mr. **Bailey**. With all due respect, Mr. Chairman, and I will finish up here, I think it has been in most cases Uncle Sam who has generally under a great deal of pressure and threat really yielded to utilizing the TPM mechanism and also agreed to bring these suits.

It has generally been because that has been the desire of administrations—I might add in both cases—of administration policy. It has not been because those companies haven't wanted to or haven't spent the money to get information to protect themselves—they have.

I would also say the small companies cannot afford to make multi-million-dollar investments in extremely expensive lawsuits. You think twice before you invest $5 or $6 million in a case.

Chairman **Gibbons**. That is what we are here to find out. Are these laws effective?

Panel, do you think these laws are effective? Can the American businessman get adequate access for relief? What kind of record do we have as far as relief is concerned?

Mr. **Alberger**. Under section 201, for example, I believe the last percentages that I heard were that something like 27 out of 45 cases have received affirmative findings at the Commission; 9 of those 27 have received relief at the Presidential level. So 9 out of 45 then got some form of relief.

In dumping and countervailing cases, the petitions, as I recall, are somewhere in the neighborhood of 60 to 70 percent successful. There is an exception for countervailing determinations relating to the transition cases. Those were filed at a time when an injury test was not required under U.S. law, and for good reason, most of those cases, once they were required to prove an injury test, had a little trouble making it. So the percentages there were something like 1 out of 15 getting an affirmative finding from the Commission.

Chairman GIBBONS. But the injury information would be available to them. They would not have to go overseas to find out about their injury?

Mr. ALBERGER. That is right.

Chairman GIBBONS. That happened right there on their own books?

Mr. ALBERGER. Certainly.

Chairman GIBBONS. Sixty to seventy percent of the countervailing duty cases have been found in the affirmative and granted relief; is that right?

Mr. ALBERGER. Both dumping and countervailing duty cases, with the exception of those transition countervailing cases, which are really a separate animal.

Mr. DEKIEFFER. I might also add, Mr. Chairman, of the 28 cases under section 337 that have reached the President, 26 have been decided or gone forward where the Commission's recommendation has gone into place.

Chairman GIBBONS. What were those figures again?

Mr. DEKIEFFER. There have been 28 cases since 1974 under section 337 that have gone to the President for his review. In only two cases has the President rejected the ITC's recommendation.

Chairman GIBBONS. It sounds to me, sir, like we have pretty good laws.

Mr. BAILEY. If I might then ask the panel one question, Mr. Chairman?

Chairman GIBBONS. Sure.

Mr. BAILEY. I would hope or assume that you folks are familiar with the availability of process to a private complainant, let's say, who wants to bring an action, and discovery. Do you think discovery is adequate under the MTN? Would somebody like to comment? How would you compare it to what would happen in a civil confrontation in this country?

Mr. DEKIEFFER. Quite obviously discovery in an international context, particularly in an administrative proceeding, is considerably different than it would be in a civil case brought before a Federal district court.

There are jurisdiction problems, in the first place, but since the Trade Agreements Act of 1979, both the Commission and the Department of Commerce are free to draw adverse inferences, if they do not receive cooperation from foreign respondents.

Mr. BAILEY. That is correct. Tell me how long—we had a little testimony this morning about what happens when somebody who is going to purchase a particular product places an order, and what effect that has on the primary side of a producer's problem in the steel industry, for example.

Would you like to mention the time that is involved and what you have to do to go into that foreign court? I have studied it. I know.

Mr. **deKieffer**. Obviously, Congressman, you don't go into, per se, a foreign court. What I am suggesting is to the extent that the Commerce Department requests information from a foreign producer with regard to its prices or its subsidies, or whatever, and the foreign producer refuses to give that information, the Department of Commerce, on its own motion or its own internal consideration, can give weight or draw adverse inferences from the failure of the foreigner to divulge the information.

Mr. **Bailey**. Thank you very much. That helps to explain perhaps why an American complainant finds it so important to be able to rely on the governmental role in this case, does it not?

Mr. **deKieffer**. It does.

Mr. **Bailey**. Thank you very much. That is the point I tried to make earlier.

Thank you, Mr. Chairman.

Mr. **Frenzel**. Mr. Chairman?

Chairman **Gibbons**. Mr. Frenzel.

Mr. **Frenzel**. I had one question I would like to ask somebody on that particular point, and that is, isn't there some risk in the U.S. initiation of these complaints? I'd guess, from Mr. Bailey, that the steel industry does not consider the Government as its best advocate, and if the United States proceeds poorly or picks the wrong case, isn't there going to be a perception that we blew it?

Mr. **Bailey**. I think that there is a great deal of fear that whenever you begin to conduct yourself in one of these cases, you are into an extremely gray policy area affected by international political considerations that because of the nature of steel industries to most countries, and what it means there—the impact on their employment, their markets, et cetera—that you take a huge risk when you decide to go off on your own to incur the wrath—and that is where the jawboning part comes in—of an administration that may not be friendly to the point of view you are trying to pursue.

In short, there is a huge risk in trying to undertake a case of this sort, particularly in an industry that is viewed as domestic industry No. 1 in half of these countries.

Mr. **Frenzel**. Isn't there a risk for the administration which says to the steel companies, "We'd prefer you don't initiate any cases; let us initiate them"? Then if they are unsuccessful, the steel industry is going to be madder than it was before.

Mr. **Bailey**. Yes, sir. I think that is probably true.

Chairman **Gibbons**. Buy bigger ads.

Mr. **Frenzel**. I am like Sam. I think I would rather see the steel companies initiate the cases, themselves. I am not sure of the policy considerations here.

Mr. **Bailey**. We have a vote. If the gentleman would yield, we just were at that point here. That is a very difficult thing from a legal and procedural point of view for them to effectuate. It really and truly is. Quite frankly, what happens is the company sits down and looks at the economics of steel production, looks at the economics of marketing. It is as plain as the nose on everyone's face that dumping is going on.

Those ladies and gentlemen know that. We do, too. The problem is verification for purposes and satisfaction of the law and procedures involved, being able to show it, being able to prove it. That is really the difficulty. Anyone that studies the problem knows dumping is occurring.

Chairman **Gibbons**. I don't understand how the gentleman can contend that when we just heard that 50 percent to two-thirds of the cases have been decided for the complainant by people who had a lot less resources, expertise and, as you say, the cases are open and shut. I can't see why in the world they can't bring their own cases. I would not want the Government to be my lawyer if I thought they were half-hearted. I would want to go in and represent myself.

Mr. **Bailey**. With all due respect, I think most of those considerations had been addressed. I think it is a different scenario, different case. It has unique features. Those folks in the administration who have dealt with it in the past, I think know that full well. It is a different environment.

Mr. **Frenzel**. Mr. Chairman, I have a question of Ms. Hughes.

I would like to know if we have ever used section 232 for other than oil and fasteners? I think we restricted oil imports on a national security basis.

Ms. **Hughes**. Mr. Frenzel, I don't have that information with me. I do believe that is correct.

Mr. **Frenzel**. Anybody else have any comment on that?

Mr. **deKieffer**. I believe your assumption is correct, Mr. Frenzel. I think one of the factors, of course, is that other industries have not brought cases.

Mr. **Frenzel**. The fastener relief under section 232 will expire the beginning of next year, as I understand it. Has a relief case been refiled under the section?

Mr. **Alberger**. Under 201, relief was put into effect.

Mr. **Frenzel**. 201?

Mr. **Alberger**. About 2½ years ago. It is due to expire early in 1982. The Commission just recently considered that issue and has made recommendations to the President at the first of this week. By a vote of 3 to 2, the recommendation was that the relief not be extended.

Mr. **Frenzel**. Thank you.

The Commerce Department has some study responsibility under this section, does it?

Ms. **Hughes**. Under section 232?

Mr. **Frenzel**. Yes.

Ms. **Hughes**. Yes, sir. We conduct the investigation.

Mr. **Frenzel**. Are you conducting investigations now under this section?

Ms. **Hughes**. Yes. We do have several investigations underway.

Mr. **Frenzel**. Are you able to tell us what they are?

Perhaps you could supply it for the record if you are allowed to tell what cases they are.

Ms. **Hughes**. Cases are underway on ferroalloys and glass-lined chemical processing equipment.

Mr. **Frenzel**. My reason for asking the question is the same reason I asked Bill about the copyright problem. There have been allegations that people who are denied relief under one section bounce over for their peak under another section. I am interested in knowing if there is some overlap between these various kinds of relief or between the way people are trying to use the various kinds of relief under the law?

Ms. **Hughes**. Well——

Mr. **Frenzel**. I would be anxious to have you work that into your response, if you could.

Ms. **Hughes**. We will be glad to.

[The information follows:]

U.S. Department of Commerce,
International Trade Administration,
Washington, D.C., December 3, 1981.

Hon. Sam M. Gibbons,
Chairman, Subcommittee on Trade, House Committee on Ways and Means, Washington, D.C.

Dear Mr. Chairman: This is in response to the questions asked of Deputy Assistant Secretary Ann H. Hughes at the Trade Policy Oversight hearing held by the Subcommittee on November 12, 1981, concerning investigations conducted by the Department of Commerce under Section 232 of the Trade Expansion Act of 1962, as amended.

Prior to Executive Order 12188 of January 2, 1980, investigations under Section 232 were conducted by the Treasury Department. Attached is a summary of those prior investigations and their findings.

The Department of Commerce is presently conducting two investigations under Section 232, where the Department conducts an investigation to determine the effect on the national security of the imports of any article. In March 1981, we received an application from the Ceramic Coating Company, of Newport, Kentucky, and we began an investigation of the glass-lined chemical processing equipment industry. This equipment is used to mix industrial chemicals and pharmaceuticals. According to the statute, the investigation must be completed one year from the date that the application is accepted, and we will complete this investigation by March 12, 1982.

The second investigation that is now ongoing is based on an application filed by the Ferroalloys Association of Washington, D.C. The items under investigation include chromium, manganese, silicon ferroalloys and related materials which are used in the production of iron, steel, stainless steel, and aluminum products. The investigation of this case was to have been completed in August, 1982. However, a recent Presidential directive to the Secretary of Commerce, in conjunction with a decision to extend relief to the high carbon ferrochrome (HCF) industry following an International Trade Commission (ITC) investigation of that industry, requested that the Department of Commerce's investigation of the ferroalloy industry be expedited. We now plan to conclude that investigation by June 1, 1982.

A review of the history of the use of Section 232 and the import relief "escape clause" provisions indicates that three industries (ball bearings, ferroalloys and industrial fasteners) have attempted to utilize both relief mechanisms. Of the Section 232 petitions now pending, only the glass-lined ceramic processing equipment case appears to have no history of other import relief investigations. However, at no time has an industry been successful in obtaining relief under Section 232 following denial or termination of escape clause relief.

It should be noted that different criteria apply in import relief investigations under Title II of the Trade Act and in Section 232 investigations. Nevertheless, the Executive Branch, in preparing recommendations for Presidential action following affirmative ITC import relief findings, may take into account national security considerations in advising the President as to whether the granting of import relief is in the national interest. Such national security considerations were discussed in the high carbon ferrochrome import relief case and are also being considered in the current review of the ITC recommendation to terminate the import relief previously granted the industrial fastener industry.

I hope this information will be helpful to the Subcommittee.

Sincerely,

Bo Denysyk,
Deputy Assistant Secretary
for Export Administration.

Enclosure.

SUMMARY OF INVESTIGATIONS CONDUCTED UNDER SECTION 232 OF THE TRADE EXPANSION ACT OF 1962 AS AMENDED (PUBLIC LAW 96-618)

Industry	Application by	Date of action and status
Petroleum and petroleum products	Self-initiated by the Treasury Department	Finding announced Mar. 10, 1959, that oil imports threaten to impair the national security.
Manganese and chromium ferro-alloys	Manufacturing Chemists' Association, Inc., 1825 Connecticut Ave., Washington, D.C.	Filed May 20, 1963. Petition denied July 17, 1964.
Tungsten Mill products	General Electric Co., Nela Park, Cleveland, Ohio.	Filed Jan. 6, 1964. Petition denied Sept. 23, 1965.
Antifriction bearings and parts	Antifriction Bearing Manufacturers Association, New York, N.Y.	Filed Oct. 16, 1964. Investigation terminated on Nov. 2, 1966, at petitioner's request.
Watches, movements and parts	Pursuant to President Johnson's request of Apr. 2, 1965.	Notice of investigation published in Federal Register and press on Apr. 8, 1965. Report on the investigation issued Jan. 11, 1967, concluded that there was no threat to national security.
Ferroalloys and related products	Committee of Producers of Ferroalloys and Related Products.	Filed May 24, 1968. Notice of investigation published in Federal Register, February 13, 1969. Report on the investigation issued May 5, 1971, concluded that there was no threat to national security.
Miniature and instrument precision ball bearings.	The Antifriction Bearing Manufacturers Association.	Filed Jan. 31, 1969. Notice of investigation published in Federal 13, 1969. Report on the investigation issued May 5, 1971, concluded that there was no threat to national security.
EHV power circuit breakers	General Electric Co	Filed Aug. 7, 1972. Report on the investigation issued May 25, 1973, concluded that there was no threat to national security.
Petroleum and petroleum products	Self-initiated by the Treasury Department	Finding announced January 30, 1975 that oil imports threaten to impair the national security.
Industrial fasteners; bolts, nuts, and large screws except mine roof bolts.	United States Fastener Manufacturing Group.	Investigation requested by Treasury on Feb. 10, 1978. Treasury General Counsel recommendation to Secretary of the Treasury on Nov. 1, 1978, concluded that there was no threat to the national security.
Oil (includes crude oil, crude oil derivatives and products, and related products derived from natural gas and coal tar).	Self-initiated by the Treasury Department	Investigation began on Mar. 15, 1978. Concluded that oil imports are entering the United States in such quantities and under such circumstances as to threaten to impair the national security. Secretary's memorandum to the President recommends that action be taken to reduce domestic oil and other sources of energy by providing appropriate incentives and eliminating programs and regulations that inhibit the achievement of these goals.

SUMMARY OF INVESTIGATIONS CONDUCTED UNDER SECTION 232 OF THE TRADE EXPANSION ACT OF 1962 AS AMENDED (PUBLIC LAW 96-618)—Continued

Industry	Application by	Date of action and status
Pending cases:		
Chemical glass-lined chemical processing equipment.	Ceramic Coating Co., Newport, Ky	Investigation began in March, 1981. Report due Mar. 12, 1982.
Ferroalloys and related materials	Ferroalloys Association, Washington, D.C.	Investigation began in Aug. 1981. Report due June 1, 1982 under Presidential request for expedited consideration.

Mr. **FRENZEL**. Were the people asking for studies, relief, and so on, the same people who were asking in another forum?

Ms. **HUGHES**. Of course we do have the ferroalloy case which was a section 201 case, as you know. That is being reviewed by the administration to determine whether or not it should be extended as a 201 case. The domestic industry has also applied under section 232. That investigation is underway and will not be completed until late next summer, I believe. So this is an example of one where the industry has sought relief under both provisions.

Mr. **FRENZEL**. I do think we want to follow up how many avenues of relief are available to each industry that is complaining.

Thank you very much.

Chairman **GIBBONS**. Let me say before we conclude here that I would like an exhibit, a chart, a graph—some kind of form—giving a history of the cases, the number of cases, the types of cases, the kind of action that has been taken on them under these various statutes. All I seek is a set of laws that are fair and workable. I have no axe to grind with the steel industry or anybody else. I want to make sure that our laws are fair and workable.

Because you all have the facts and the figures, I wish in response to one of those questions that we were raising here, you would furnish that kind of information.

I will ask the staff to work with you on that.

[The list follows:]

SUMMARY OF INTERNATIONAL TRADE COMMISSION AND PRESIDENTIAL DETERMINATIONS UNDER THE IMPORT RELIEF PROVISIONS (SECTIONS 201-203) OF THE TRADE ACT OF 1974

Commission Decisions	45	Presidential Decisions	27
Affirmative	24	Tariff Increases	5
		Quotas	2
Negative	18	Orderly Marketing Agreements	2
Split	3	No Import Relief	18

Investigation Number	(a)Receipt of Petition (b)ITC Report (c)Presidential decision	Commodity	ITC Decision (Vote) * Recommendation	Presidential Decision
TA-201-1	(a)4-18-75 (b)10-20-75	Birch Plywood Doorskins	Negative (1-5)	
TA-201-2	(a)5-22-75 (b)11-24-75	Bolts, Nuts & Screws Small screws Other	Negative (0-5) (2-3)	
TA-201-3	(a)5-5-75 (b)11-5-75	Wrapper Tobacco	Negative (0-6)	
TA-201-4	(a)7-10-75 (b)1-12-76 (c)3-10-76	Asparagus	Split (3-3) Quotas	No Import Relief
TA-201-5	(a)7-16-75 (b)1-16-76 (c)3-16-76	Stainless Steel & Alloy Tool Steel Ingots, blooms, billets, slabs, sheet bars Other	Negative (0-5) Affirmative (4-1) Quotas	Orderly Marketing Agreements (Quotas on major suppliers & OMA with Japan)
TA-201-6	(a)8-18-75 (b)2-18-76 (c)4-14-76	Slide Fasteners	Split (3-3) Adjustment Assistance	No Import Relief Adjustment Assistance
TA-201-7	(a)9-17-75 (b)2-20-76 (c)4-16-76	Footwear	Affirmative (6-0) Increased Tariffs	No Import Relief Adjustment Assistance
TA-201-8	(a)8-28-75 (b)3-1-76 (c)4-30-76	Stainless Steel Table Flatware	Affirmative (5-1) Tariff-Rate Quota	No Import Relief Adjustment Assistance
TA-201-9	(a)9-8-75 (b)3-8-76	Certain Gloves Cotton, leather Rubber, plastic	Negative (1-5) (0-6)	
TA-201-10	(a)9-17-75 (b)3-17-76 (c)5-17-76	Mushrooms	Affirmative (3-2) Adjustment Assistance	No Import Relief Adjustment Assistance Market assurances from Taiwan & Korea; ITC re-investigation

TA-201-11	(a)10-2-75 (b)4-2-76 (c)6-1-76	Ferricyanide & Ferrocyanide Pigments	Affirmative (5-1) Increased Tariffs	No Import Relief
TA-201-12	(a)11-17-75 (b)5-11-76 (c)7-7-76	Shrimp	Affirmative (3-2) Adjustment Assistance	Adjustment Assistance
TA-201-13	(a)12-12-75 (b)6-12-76	Round Stainless Steel Wire	Negative (1-4)	
TA-201-14	(a)12-20-75 (b)6-29-76 (c)8-28-76	Honey	Affirmative (3-2) Tariff-Rate Quota	No Import Relief
TA-201-15	(a)6-2-76 (b)12-22-76	Plant Hangers	Negative (0-6)	
TA-201-16	(a)9-17-76 (b)3-17-77 (c)5-4-77	Sugar	Affirmative (5-1) Quotas	No Import Relief
TA-201-17	(a)9-20-76 (b)1-10-77 (c)3-10-77	Mushrooms	Affirmative (4-1) Tariff-Rate Quota	No Import Relief; Taiwan & Korea market assurances
TA-201-18	(a)9-28-76 (b)2-8-77 (c)4-1-77	Footwear	Affirmative (6-0) Tariff-Rate Quotas	Orderly Marketing Agreements (Korea & Taiwan)
TA-201-19	(a)9-22-76 (b)3-22-77 (c)6-24-77	Television Receivers	Affirmative (6-0) Increased Tariffs	Orderly Marketing Agreements (Japan)
TA-201-20	(a)1-10-77 (b)7-11-77	Low-Carbon Ferrochromium	Negative (1-3)	
TA-201-21	(a)1-21-77 (b)5-24-77	Cast-Iron Cooking Ware	Negative (1-4)	
TA-201-22	(a)1-31-77 (b)8-1-77	Fresh Cut Flowers	Negative (0-4)	
TA-201-23	(a)2-18-77 (b)8-18-77	Certain Headwear	Negative (0-4)	

TA-201-24	(a)3-9-77 (b)7-25-77 (c)9-22-77	Cast-Iron Stoves & Parts	Split (2-2) Suspend GSP	No Import Relief
TA-201-25	(a)3-17-77 (b)9-17-77	Live Cattle & Certain Meat Products	Negative (0-4)	
TA-201-26	(a)4-13-77 (b)9-29-77	Malleable Cast-Iron Pipe & Fittings	Negative (0-5)	
TA-201-27	(a)6-10-77 (b)12-12-77 (c)2-10-78	Bolts, Nuts & Large Screws	Affirmative (3-1) Increased Tariffs	No Import Relief; Requested section 232 national security study (negative)
TA-201-28	(a)6-1-77 (b)12-1-77 (c)2-27-78	High Carbon Ferrochromium	Affirmative (3-1) Increased Tariffs	No Import Relief
TA-201-29	(a)8-2-77 (b)2-2-78 (c)3-27-78	CB Radio Receivers	Affirmative (5-1) Increased Tariffs; Adjustment Assistance	Increased Tariffs
TA-201-30	(a)12-8-77 (b)5-8-78 (c)6-30-78	Certain Stainless Steel Flatware	Affirmative (4-2) Increased Tariffs	No Import Relief; Commerce examine feasibility of industry revitalization program
TA-201-31	(a)12-10-77 (b)6-20-78	Unalloyed, Unwrought Zinc	Negative (1-5)	
TA-201-32	(a)2-23-78 (b)8-23-78 (c)10-20-78	Unalloyed, Unwrought Copper	Affirmative (4-1) Quotas	No Import Relief
TA-201-33	(a)3-2-78 (b)9-1-78 (c)10-31-78	Bicycle Tires & Tubes	Affirmative (4-1) Increased Tariffs	No Import Relief
TA-201-34	(a)3-21-78 (b)9-21-78 (c)11-29-78	Certain Fishing Tackle Artificial baits, flies	Affirmative (4-1) Suspend GSP	No Import Relief
		Other	Negative (0-5)	
TA-201-35	(a)6-12-78 (b)9-5-78 (c)11-2-78	High-Carbon Ferrochromium	Affirmative (4-0) Increased Tariffs	Increased Tariffs

TA-201--36	(a)7-27-78 (b)6-12-78 (c)2-8-77	Clothespins	Affirmative (4-0) Quotas	Quotas
TA-201-37	(a)1-9-78 (b)11-3-78 (c)12-22-78	Bolts, Nuts & Large Screws	Affirmative (2-1) Increased Tariffs	Increased Tariffs
TA-201-38	(a)8-7-78 (b)2-7-79	Certain Machine Needles	Negative (0-5)	
TA-201-39	(a)5-4-79 (b)11-13-79 (c)1-2-80	Nonelectric Cooking-Ware	Affirmative (5-0) Increased Tariffs	Increased Tariffs
TA-201-40	(a)7-24-79 (b)1-24-80 (c)4-24-80	Leather Wearing Apparel	Affirmative (4-0) Increased Tariffs	No Import Relief Adjustment Assistance
TA-201-41	(a)8-20-79 (b)1-29-80	Certain Fish	Negative (0-3)	
TA-201-42	(a)11-15-79 (b)4-3-80	Fresh Cut Roses	Negative (0-5)	
TA-201-43	(a)3-14-80 (b)8-18-80 (c)10-17-80	Mushrooms	Affirmative (4-0) Quotas	Increased Tariffs
TA-201-44	(a)6-12-80 (b)12-3-80	Certain Motor Vehicles & Certain Chassis and Bodies Therefor	Negative (2-3)	
TA-201-45	(a)7-13-81 (b)11-13-81	Fishing Rods	Negative (1-5)	

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* Affirmative-Negative

SUMMARY OF INVESTIGATIONS CONDUCTED BY THE INTERNATIONAL TRADE COMMISSION UNDER SECTION 406 OF THE TRADE ACT OF 1974

Total Number of Cases since 1975	7
Affirmative Finding of Market Disruption	2
Negative Finding of Market Disruption	4
Pending	1

Case #	Date Filed	Commodity (Country)	Finding (Vote)*/Date	Presidential Action
406-1	Dec. 1977	Gloves (PRC)	No disruption (2-4);3/15/78	
406-2	May 1978	Clothespins (PRC)	Disruption (6-0); recommended 5 yr. import quota; 8/3/78	No section 406 relief; President determined relief more appropriately decided in pending section 201 case
406-3	May 1978	Clothespins (Poland)	No disruption (1-5);8/3/78	
406-4	May 1978	Clothespins (Romania)	No disruption (0-6);8/3/78	
406-5	July 1979	Anhydrous Ammonia (USSR)	Disruption (3-2); recommended 3 yr. import quota; 10/11/79	No relief; subsequently President instituted emergency relief in form of import quota for one year effective 1/24/80 and requested case 406-6.
406-6	June 1980	Anhydrous Ammonia (USSR)	No disruption (2-3); 4/11/80	
406-7	Oct. 1981	Unrefined Montan Wax (East Germany)	Pending	

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* Affirmative-Negative

SUMMARY OF CASES UNDER SECTION 301, TRADE ACT OF 1974

Petitioner/ Docket #	Subject of Investigation	Date Filed/ Initiated	Current Status
Delta Steamship Lines Docket No. 301-1	Guatemalan discriminatory cargo shipping requirements	filed 7/1/75	Petition withdrawn and review terminated after bilateral negotiations produced accord between shipping lines.
United Egg Producers and American Farm Bureau Federation Docket No. 301-2	Canadian import quota on U.S. eggs	filed 7/17, 7/21/75	Terminated review 3/14/76 after bilateral negotiations resulted in Canada doubling its import quota.
Seymour Foods Docket No. 301-3	EC supplementary levies on egg albumin	filed 8/7/75	Investigation terminated 7/21/80 after informal consultations. Supplementary levies replaced by increased import charges yet U.S. exports increased.
National Canners Association Docket No. 301-4	EC minimum import prices and import license/surety deposit system on canned fruits, juices and vegetables	filed 8/25/75	Terminated review 12/78 following formal GATT Art. XXIII.1 consultations 3/29/76 and GATT Art. XXIII.2 panel. EC discontinued use of system after panel report.
Great Western Malting Co. Docket No. 301-5	EC export subsidies on malt	filed 11/13/75	Terminated investigation with agreement of petitioner 6/19/80 after informal and formal consultations under GATT Art. XXIII and 1976 EC report on malt subsidies and reduction of their amount.

* Millers National Federation Docket No. 301-6	EC export subsidies on wheat flour	filed 12/8/75	Bilateral consultations held 2/77 and during the MTN. Formal dispute settlement procedures initiated under GATT 12/24/80 with President directing USTR 8/1/80 to pursue these procedures diligently. GATT Art. XXII consultations held 10/80, technical meeting on price undercutting data on 1/29/81. Decided in 9/81 to proceed under MTN subsidies code. Consultations held with EC 10/28 and conciliation phase completed 12/14/81.
National Canners Assn., Docket No. 301-7	EC variable levy on sugar added to canned fruits and juices	filed 3/30/76	Terminated investigation with agreement of petitioner after bilateral agreement reached 7/11/79 following consultations and MTN changing the variable levy to fixed 2% levy on sugar added
National Sugar Processors Assn.; Amer. Soybean Assn. Docket No. 301-8	EC displacement of soybean imports through mixing requirement of livestock feed with domestic nonfat dry milk	filed 3/30/76	Termination of review 12/78 after EC terminated its system following meetings of GATT Art. XXIII.2 panel in spring 1977.
Charles C. Rehfeldt Docket No. 301-9	Taiwanese tariff levels on imported major home appliances	filed 3/15/76	Terminated review 12/1/77 on grounds dispute settled bilaterally.
American Iron & Steel Institute Docket No. 301-10	EC and Japan diversion of Japanese steel to U.S. market through bilateral restrictions	filed 10/6/76	Investigation discontinued 1/8/78 on grounds of insufficient justification.

Florida Citrus Commission et.al. Docket No. 301-11	EC preferential import duties on oranges and other citrus and on orange and other juices from Mediterranean countries	filed 11/12/76	Public hearing 1/77. Numerous consultations held with EC under GATT Art. XXII and XXIII, including 10/80; no satisfactory resolution. USDA and USTR analyzing adverse effects; decision whether to proceed further expected in near future.
George F. Fisher, Inc. Docket No. 301-12	Japanese import restrictions on thrown silk	filed 2/14/77	Terminated review after Japanese adjusted restrictions following consultations and GATT panel under Art. XXIII.2
Tanners Council of America Docket No. 301-13	Japanese quotas and tariffs on leather	filed 8/4/77 initiated 8/23/77	Bilateral understanding reached for Japan to expand its leather quota, following GATT dispute settlement proceedings under Art. XXII:1,GATT panel meeting 1/79 and bilateral negotiations. President directed USTR 7/31/80 to consult with Japanese on why U.S. leather exports fell during first year of understanding. Report to President 2/1/81 noted no evidence Japan failed to carry out its obligations so no action recommended. USTR delegation to Japan 4/81 to make further determinations to help USTR decide whether to review understanding or GATT complaint.
American Institute of Marine Underwriters Docket No. 301-14	USSR state monopoly on marine insurance	filed 11/10/77 initiated 1/25/78	Suspended investigation pending review in one year of bilateral understanding reached 4/5/79. Suspension continued 7/24/80 because of inability to assess operation. Internal review underway.

Obtain U.S. Television Licenses Docket No. 301-15	Canadian Income Tax Act denial of tax deduction to any Canadian taxpayer for advertising time purchased from a U.S. broadcaster for advertising aimed at Canadian market	filed 8/29/78	President Carter decided 8/1/80 most appropriate response was U.S. mirror legislation. Draft bill sent to Congress 9/9/80 not acted on 96th Congress. Reagan Administration submitted new bill (H.R. 5205) on 12/14/80.
Great Plains Wheat Docket No. 301-16	EC export subsidies on wheat	filed 11/2/78	Terminated investigation 7/24/80 as result of consultations 7/79 with EC.
Cigar Association of America, Inc. Docket No. 301-17	Japanese import and marketing restrictions, charges on cigars	filed 3/14/79	Terminated investigation 1/6/81 after Japan repealed internal tax, reduced duty and market restrictions under bilateral agreement following GATT consultations and appointment of panel under Article XXIII.2.
Associated Tobacco Manufacturers Docket No. 301-19	Same restrictions, charges on tobacco	filed 10/22/79	Consolidated with cigar case; investigation terminated 1/1/81.
American Institute of Marine Underwriters Docket No. 301-18	Argentine marine insurance restrictions	filed 5/25/79 initiated 6/14/79	Suspended investigation 7/25/80 after receiving commitment from Argentina to participate in multilateral negotiations to eliminate such practices, conditioned on a substantial number of other LDC's participating
American Home Insurance Co. Docket No. 301-20	Korea insurance practices	filed 11/5/79 initiated 12/19/79	Petition withdrawn, and investigation terminated 12/19/80 as a result of Korean actions after several bilateral consultations to liberalize domestic insurance market

Universal Optical Co., Inc. Docket No. 301-21	Swiss gold marking practices	filed 12/12/79	Petition withdrawn 12/1/80 after U.S. changed law to mirror Swiss practice
Rice Millers Assoc.	Japanese export subsidies on rice	filed 4/7/80	Petition withdrawn 5/19/80 after requested agreement reached with Japan regarding disposal of surplus production
Diamond/Sunsweet	Venezuelan tariff increase on dried prunes	filed 6/2/80	Petition withdrawn 7/16/80 after Venezuela reduced duty (Duty is still higher than during period prior to filing petition)
Ralph Edwards Sportswear	Argentina and Uruguay export controls and taxes on leather hides; Japanese import restrictions on finished leather	filed 10/31/80	Petitions withdrawn 11/10/80 after petitioner was advised that information provided was insufficient
	Japanese import restrictions on finished leather	filed 1/12/81	Petition withdrawn 2/19/81 after petitioner was advised that information provided was insufficient
* Great Western Sugar	EC export subsidies on sugar	filed 8/20/81 initiated 10/5/81	Consultations requested 10/9/81 under MTN subsidies code. Hearing held 11/4/81. EC requested additional information on alleged subsidy effects, supplied 12/10/81.
California Cling Peach Advisory Board et.al.	EC production subsidies on canned peaches and pairs, raisins	filed 9/11/81, 10/29/81 initiated 12/10/81	

* National Broilers Council et. al.	EC export subsidies on poultry	filed 9/17/81 initiated 10/28/81	Consultations requested 11/13/81 with EC under MTN subsidies code
Tanner's Council of America	Argentina breach of 1979 export restriction agreement on hides	filed 10/9/81 initiated 11/24/81	President partially suspended 10/20/81 U.S. agreement obligations. Consultations requested 11/24/81.
* National Pasta Assoc.	EC export subsidies on pasta	filed 10/16/81 initiated 11/30/81	Consultations requested 12/2/81 with EC under MTN subsidies code
* Tool and Stainless Steel Industry Committee, United Steelworkers of America	Austria, Belgium, France Italy, Sweden, U.K., Brazil domestic subsidies on stainless steels and alloy tool steel	filed 12/2/81	

* ~~Only~~ Cases ~~to date~~ under MTN agreements

1980 ANTIDUMPING INVESTIGATIONS

I. Number of Investigations

New investigations initiated in 1980	22
Transition cases from 1979 (re-initiated on 1/1/80)	19

II. Investigations Terminated by the ITC

New investigations	7 of 22 (32%)
Transition investigations	11 of 19 (57%)

III. Commerce Determinations

Preliminary affirmative determinations	6
Final affirmative determinations	5
Preliminary negative determinations	0
Final negative determinations	2

IV. Number of Investigations Withdrawn	1
V. Number of Petitions Rejected	1

DETERMINATIONS BY DEPARTMENT OF COMMERCE AND INTERNATIONAL TRADE COMMISSION UNDER THE ANTIDUMPING ACT AS AMENDED BY THE TRADE AGREEMENTS ACT OF 1979

(for the period 7/1/79 to 6/30/80)

Country	Product	Initiation	Provisional measures	Final outcome						Dumped imports as % of domestic consumption
				Definitive duty	Price undertakings	No dumping	No injury	Case withdrawn	Other	
	2	3	4	5	6	7	8	9	10	11
Austria	Melamine	5/1/79	11/13/79 13.43%				4/29/80			***
Belgium	Carbon Steel Lightweight I Beams	2/9/79	6/13/79 no dumping			9/20/79				
Belgium	Certain Steel Products	4/11/80								7.0%*
Canada	Canned Clams	3/6/80					4/30/80			0.1%
Canada	Methanol	6/14/78	12/19/78 56.3%	7/27/79 59.2%						10.7%
Canada	Sodium Acetate	3/23/79	10/4/79 34.75%				1/3/80			***
Canada	Sugar and Sirups	4/30/79	11/8/79 19.25%	4/9/80 $.02/lb.						0.89%
Finland	Condenser Paper	8/8/78	2/20/79 77.7%	9/21/79 77.7%						7.1%

Country	Product	Initiation	Provisional measures	Final outcome						Dumped imports as % of domestic consumption
				Definitive duty	Price undertakings	No dumping	No injury	Case withdrawn	Other	
1	2	3	4	5	6	7	8	9	10	11
France	Anhydrous Sodium Metasilicate	6/9/80								8.
France	Condenser Paper	8/8/78	2/20/79 77.7%	9/21/79 77.7%						6.0%
France	Sodium Hydroxide	4/20/79					2/15/80			1.74%*
France	Certain Steel Products	4/11/80								7%**
Italy	Certain Steel Products	4/11/80								7%**
Italy	Melamine	5/1/79	11/13/79 31.05%				4/29/80			***
Italy	Rail Passenger Cars	11/27/79					2/11/80			
Italy	Sodium Hydroxide	4/20/79					2/15/80			1.74*
Italy	Spun Acrylic Yarn	7/2/79	12/20/79 48.05%	4/8/80 48.05%						4%

Country	Product	Initiation	Provisional measures	Final outcome						Dumped imports as % of domestic consumption
				Definitive duty	Price undertakings	No dumping	No injury	Case withdrawn	Other	
1	2	3	4	5	6	7	8	9	10	11
Japan	Countertop Microwave Ovens	8/29/79	7/15/80 5.0%							***
Japan	Industrial Electric Motors	10/3/79	6/2/80 U/150 HP 32.2% O/150 HP 4.8%							***
Japan	Portable Electric Typewriters	5/18/79	1/4/80 44.5%	3/21/80 37.12%						***
Japan	Rail Passenger Cars	11/27/79					2/11/80			
Japan	Spun Acrylic Yarn	1/4/79	7/13/79 23.19%	4/8/80 23.19%						12%
Japan	Steel Pipe and Tubing	3/25/80					6/24/80			

Country	Product	Initiation	Provisional measures	Final outcome						Dumped imports as % of domestic consumption
				Definitive duty	Price undertakings	No dumping	No injury	Case withdrawn	Other	
1	2	3	4	5	6	7	8	9	10	11
Korea	Certain Steel Wire Nails	4/20/79	10/26/79 5/7%				8/1/80			13.6%
Luxembourg	Certain Steel Products	4/11/80								7.0%**
Mexico	Picker Sticks	5/2/73	11/7/73	5/6/74					revoked 6/11/80	
Mexico	Squash, Peppers, Eggplant and Cucumbers	10/19/79	11/5/79 0%			3/28/80				
Netherlands	Certain Steel Products	4/11/80								7.0%**
Netherlands	Melamine	5/1/79	2/26/80 0.18%			4/28/80				
United Kingdom	Certain Marine Radar Systems	11/6/78	5/17/79 2.72%				1/18/80			***

Country	Product	Initiation	Provisional measures	Final outcome						Dumped imports as % of domestic consumption
				Definitive duty	Price undertakings	No dumping	No injury	Case withdrawn	Other	
1	2	3	4	5	6	7	8	9	10	11
United Kingdom	Certain Steel Products	4/11/80								7.0***
United Kingdom	Sodium Hydroxide	4/20/79					2/15/80			1.74%*
United Kingdom	Water Circulating Pumps	5/21/75	11/26/75 23-35%	5/27/76 3-42%					revoked 1/4/80	
West Germany	Certain Steel Products	4/11/80								7.0%**
West Germany	Coke	10/22/79					11/26/79			6.4%
West Germany	Pig Iron	1969							revoked 10/2/79	
West Germany	Sodium Hydroxide	4/20/79					2/15/80			1.74%*

[1] Trade volume based on statistical data for the latest available [illegible]

(for the period 7/1/80 to 12/31/80)

Country	Product	Initiation	Provisional Measures	Final Outcome Definitive Duty	Price Undertaking	No Dumping	No Injury	Case Withdrawn	Other
Switzerland	Portable Electric Nibblers	10/3/80							ITC Prelim Negative 11/19/80
W. Germany	Precipitated Barium Carbonate	9/30/80							
Italy	Strontium Nitrate	9/30/80							
W. Germany	Precipitated Strontium Carbonate	9/30/80							ITC Prelim Negative 10/21/80
India	Certain Iron Metal Castings	12/10/80							
W. Germany	Snow Grooming Vehicles	11/28/80							ITC Prelim Negative 12/16/80
Japan	Microwave Ovens	1/1/80	7/15/80					Withdrawn 12/8/80	
England	Latchet Hook Kits								Petition Rejected 12/10/80

Country	Product	Initiation	Provisional Measures	Definitive Duty	Price Undertaking	No Dumping	No Injury	Case Withdrawn	Other
Japan	Natural + Synthetic Menthol								ITC Prelim Negative 7/22/80
PRC	Menthol	7/2/80							
Canada	Asphalt Roofing Shingles	9/9/80							ITC Prelim Negative 9/30/80
E. Germany	Black Montan Wax	9/24/80							
France	Anhydrous Sodium Metasilicate	6/10/80	9/5/80 50%						
Mexico	Picker Sticks								Revoked 7/16/80
Sweden	Cement								Revoked 7/3/80
United Kingdom	Water Circulating Pumps								Revoked 1/5/80
E.C.	Carbon Steel	3/17/80						10/1/80	
S. Korea	Certain Steel Wire Nails	4/20/79	10/19/79 5.7%				8/13/80		

(for the period 1/1/81 to 12/2/81)

Country	Product	Initiation	Provisional measures	Final outcome					
				Definitive duty	Price undertaking	No dumping	No injury	Case withdrawn	Other
1	2	3	4	5	6	7	8	9	10
Columbia	Fresh Cut Roses	--	--	--	--	--	--	--	Dismis 6/25/8
Federal Republic of Germany	Tubeless Tire Valves	4/22/81	9/15/81	--	--	11/30/81	--	--	
Federal Republic of Germany	Precipiated Barium Carbonate	9/30/80	2/11/81	6/25/81	--	--	--	--	
France	Anhydrous Sodium Metasilicate	6/09/80	9/05/80	1/07/81	--	--	--	--	--
German Democratic Republic	Unrefined Montan Wax	9/24/80	3/12/81	7/22/81	--	--	--	--	Amended Fir 8/25/81
Hungary	Truck Trailer Axles	3/04/81	9/10/81	--	--	--	--	--	--
India	Certain Iron Metal Castings	12/12/80	5/27/81	--	--	7/30/81	--	--	--
Italy	Strontium Nitrate	9/30/80	2/11/81	6/25/81	--	--	--	--	--
Peoples Republic of China	Natural Menthol	7/02/80	1/07/80	4/27/81	--	--	6/04/81	--	--
Taiwan	Motorcycle Batteries	5/20/81	10/06/81	--	--	--	--	--	--

Country	Product	Initiation	Provisional measures	Final outcome					
				Definitive duty	Price undertaking	No dumping	No injury	Case withdrawn	Other
1	2	3	4	5	6	7	8	9	10
United Kingdom	Secondary Aluminum Alloy	4/13/81	--	--	--	--	5/08/81	--	--
Japan	Steel Wire Nails	7/02/81	--	--	--	--	--	--	Termina DOC 8/11
S. Korea	Steel Wire Nails	7/02/81	--	--	--	--	--	--	--
Yugoslavia	Steel Wire Nails	7/02/81	--	--	--	--	8/11/81	--	
France	Sodium Sorbitol	7/06/81	--	--	--	--	--	--	--
Taiwan	Mesh Fireplace Screens	8/26/81	--	--	--	--	--	--	--
Romania	Carbon Steel Plate	11/18/81	--	--	--	--	--	--	--
Japan	High Powered Amplifiers	8/17/81	--	--	--	--	--	--	--
Japan	Clad Steel Plate	10/09/81	--	--	--	--	--	--	--
Canada	Sheet Piling	11/24/81	--	--	--	--	--	--	--

Wang No 0450i

1980 COUNTERVAILING DUTY INVESTIGATIONS

I.	Number of Investigations	
	New investigations initiated in 1980	9
	Transition cases from 1979 (re-initiated on 1/1/80)	14
II.	Investigations Terminated by the ITC	
	New investigations	1 of 9 (11%)
	Transition investigations	7 of 14 (50%)
III.	Commerce Determinations	
	Preliminary affirmative determinations	12
	Final affirmative determinations	5
	Preliminary negative determinations	1
	Final negative determinations	3
IV.	Number of Investigations Withdrawn	3
V.	Number of Petitions Rejected	0

DETERMINATIONS BY DEPARTMENT OF COMMERCE AND INTERNATIONAL TRADE COMMISSION
UNDER THE COUNTERVAILING DUTY LAW AS AMENDED BY TRADE AGREEMENTS ACT OF 1979

(for the period 7/1/79 to 6/30/80)

Country	Product	Initiation	Provisional measures	Final outcome					
				Definitive duty	Undertakings	No subsidy	No injury	Date withdrawn	Other
1	2	3	4	5	6	7	8	9	10
		Date	Date/amt. of subsidy	Date/amt. of subsidy	Date/amt. of subsidy	Date	Date	Date	Date
Australia	Wool Top	9/21/79	1/4/80 no subsidy found			3/21/80			
Austria	Rayon Staple Fiber	6/18/79	1/7/80 0.58%					2/29/80 petition	withdrawn
Brazil	Castor Oil	4/30/75	9/11/75	3/16/76 11.3%					CVD reduced 12/7/79 2.5%
Brazil	Certain Ferroalloys	5/11/79	9/25/79 amount undetermined					3/26/80 petition	withdrawn
Brazil	Certain Firearms	4/5/79	9/14/79 amount undetermined					3/26/80 petition	withdrawn
Brazil	Cotton Yarn	6/1/76	9/14/76	3/15/77 19.8%					CVD reduced 12/7/79 1.0%
Brazil	Non-Rubber Footwear	3/8/74		9/12/74					CVD reduced 12/7/79 2.5%

Country	Product	Initiation	Provisional measures	Final outcome						Trade volume
				Definitive duty	Undertakings	No subsidy	No injury	Case withdrawn	Other	
1	2	3	4	5.	6	7	8	9	10	11
		Date	Date/amt. of subsidy	Date/amt. of subsidy	Data/amt. of subsidy	Date	Date	Date	Date	$
Brazil	Pig Iron	2/13/79	6/4/79 amount undetermined	4/4/80 2.85%-15.42%						$21.6M
Brazil	Scissors	4/6/76	8/9/76	2/11/77 15.6%					CVD reduced 12/7/79 1.0%	$1.2M
Canada	Frozen Potato Products	5/25/79					2/21/80			$2.8M
Columbia	Handbags	6/21/77	11/1/77	4/24/78 5.5% no duties assessed					CVD revoked 11/15/79	$6M
European Communities	Canned Tomatoes and Concentrates	1/30/79	3/15/79 amount undetermined	8/22/79 31.9%-98.1%			6/18/80			$7.7M
European Communities	Corn Starch	9/18/79	1/2/80 34.4%				5/7/80			$3.8M
European Communities	Potato Starch	1/30/79	1/2/80 34.4% (Netherlands - 36.0%)				5/7/80			$6.4M

Country	Product	Initiation	Provisional measures	Final outcome					
				Definitive duty	Undertakings	No subsidy	No injury	Case withdrawn	Other
1	2	3	4	5.	6	7	8	9	.10
		Date	Date/amt. of subsidy	Date/amt. of subsidy	Date/amt. of subsidy	Date	Date	Date	Date
Italy	Certain Valves	7/3/79	10/24/79 amount undetermined					2/12/80 petition	withdrawn
Italy	Silicon Steel	4/25/78	2/14/79 no subsidy found					8/15/79 petition	withdrawn
Japan	Chains and Parts Thereof	5/22/79					2/21/80		
Japan	Malleable Pipe Fittings	8/28/79	1/2/80 4.0%					3/24/80 petition	withdrawn
Japan	Valves	3/29/79	1/2/80 amount undetermined					2/12/80 petition	withdrawn
Japan	Weighing Machinery and Scales	3/29/79	1/2/80 4.0%				5/7/80		
Malaysia	Men's and Boys' Apparel and Textiles	8/28/78	1/12/79 amount undetermined			7/13/79			
Mexico	Apparel and Textiles	8/28/78	4/19/79 amount undetermined			7/13/79			

Country	Product	Initiation	Provisional measures	Final outcome					
				Definitive duty	Undertakings	No subsidy	No injury	Case withdrawn	Other
1	2	3	4	5.	6	7	8	9	10
		Date	Date/amt. of subsidy	Date/amt. of subsidy	Date/amt. of subsidy	Date	Date	Date	Date
India	Gray Metal Iron Castings	3/14/80	5/23/80 21.75%						
India	Industrial Fasteners	2/25/80	4/30/80 19.58%	7/21/80 18%					
India	Oleoresins	5/15/78	11/28/78 amount un-determined	4/9/79 4,23%			7718/79 (for goods entering duty free)		
India	Textiles	4/2/80	6/26/80 2.5-15%						
India	Shoes	5/2/78	11/24/79 no subsidy found	10/26/79 4.24%			3/26/80 (unlasted leather uppers)		
Israel	Fresh Cut Roses	2/1/80	6/10/80 3.8%						

Country	Product	Initiation	Provisional measures	Final outcome					
				Definitive duty	Undertakings	No subsidy	No injury	Case withdrawn	Other
1	2	3	4	5.	6	7	8	9	10
		Date	Date/amt. of subsidy	Date/amt. of subsidy	Date/amt. of subsidy	Date	Date	Date	Date
Netherlands	Fresh Cut Roses	2/1/80					2/27/80		
Pakistan	Certain Textiles and Textile Products	7/20/79	3/17/80 7.5-12.5%				7/8/80		
Spain	Amoxicillin Trihydrate	9/11/78	2/2/79 amount undetermined	7/27/79 0.62%					
Spain	Ferroalloys	3/6/79	8/16/79 amount undetermined	1/2/80 1-3.36%					

Country	Product	Initiation	Provisional measures	Final outcome						
				Definitive duty	Undertakings	No subsidy	No injury	Case withdrawn	Other	
1	2	3	4	5.	6	7	8	9	10	
		Date	Date/amt. of subsidy	Date/amt. of subsidy	Date/amt. of subsidy	Date	Date	Date	Date	
	TRANSITION CASES									
Brazil	Leather Handbags							5/21/80		
Brazil	Apparel					1/24/80				
Canada	Fish						5/6/80			$2
Denmark	Butter Cookies						6/3/80			$1
European Communities	Canned Hams						6/19/80			$34
European Communities	Frozen Boneless Beef							4/8/80		
European Communities	Non-Quota Cheese						6/19/80			$9
Norway	Non-Quota Cheese							3/19/80		

(for the period 7/1/80 to 12/31/80)

					FINAL OUTCOME				
COUNTRY	PRODUCT	INITIATION	PROVISIONAL MEASURES	DEFINITIVE DUTY	ELIMINATE /OFFSET SUBSIDY	NO SUBSIDY	NO INJURY	ELIMINATE INJURY EFFECT	OTHER
Pakistan	Textiles	7/20/79	3/26/79 7.5-12.5%	8/5/79 7.5-12.5%			ITC 7/14/80		
India	Industrial Fasteners	2/25/80	4/30/80 19.58%	7/21/80 18%					
India	Grey Metal Iron Casting	3/14/80	5/30/80 21.75%	10/16/80 12.9-16.8%					
New Zealand	Ear Tags	8/19/80	10/29/80						
Israel	Roses	1/24/80	6/4/80 3.8%	8/28/80 2.02%					
France	Classlined Pressure Vessels								Petition Rejected 10/10/80
India	Textiles	4/2/80	6/26/80 5-15%			9/30/80			
Mexico	Leather Wearing Apparel	10/15/80							
Argentina	Leather Wearing Apparel	10/15/80							
Uruguay	"	10/15/80	12/12/80 26.01%						
Colombia	"	10/15/80							
Austria	Cheese								REVOKED 9/30/80
Canada	Fish								REVOKED 11/28/80
Great Britain	Canned Hams & Shoulders								REVOKED 9/30/80

COUNTRY	PRODUCT	INITIATION	PROVISIONAL MEASURES	DEFINITIVE DUTY	ELIMINATE /OFFSET SUBSIDY	NO SUBSIDY	NO INJURY
Denmark	Canned Hams & Canned Shoulders						
Denmark	Butter Cookies						
E.C.	Dextrines Etc.						
E.C.	Tomatoes						
France	Canned Hams & Canned Shoulders						
Belgium	Canned Hams & Canned Shoulders						
Ireland	Canned Hams & Canned Shoulders						
Italy	Certain Steel Products						
Italy	Canned Hams & Canned Shoulders						
Italy	Chains & Parts						
Luxembourg	Canned Hams & Canned Shoulders						
Mexico	Carton Steel						
The Netherlands	Canned Hams & Canned Shoulders						
West Germany	Canned Hams & Canned Shoulders						

(for the period 1/1/81 to 12/2/81)

Country	Product	Initiation	Provisional measures	Final outcome: Definitive duty	Undertakings	No subsidy	No injury	Case withdrawn	Other
1	2	3	4	5	6	7	8	9	10
rgentina	Leather Wearing Apparel	10/15/80	1/15/81	4/23/81	3/13/81	--	--	--	--
ustralia	Lamb Meat	5/18/81	7/23/81	--	--	--	--	--	Terminated 7/25/81
olumbia	Leather Wearing Apparel	10/15/80	1/15/81	--	4/02/81	--	--	--	Final Affm 4/06/81
exico	Toy Balloons & Playballs	--	--	--	--	--	--	--	Dismissal 6/17/81
Mexico	Leather Wearing Apparel	10/15/80	1/15/81	4/10/81	--	--	--	--	--
New Zealand	Plastic Animal I.D. Tags	8/19/80	10/29/80	--	--	--	2/81	--	--
ew Zealand	Lamb Meat	5/13/81	--	--	--	--	--	--	--
ruguay	Leather Wearing Apparel	10/15/80	12/12/80	--	2/27/81	--	--	--	--
EC	Sodium Gluconate	7/06/81	9/09/81	--	--	--	--	--	--
wan	Bicycle Tires & Tubes	--	--	--	--	--	--	--	Court Remand 10/19/81
xico	Ceramic Tiles	10/26/81	--	--	--	--	--	--	--
uth Africa	Prestressed Concrete Steel Wire Strand	11/25/81	--	--	--	--	--	--	--
ain	Prestressed Concrete Steel Wire Strand	11/25/81	--	--	--	--	--	--	--
uth Africa	Carbon Steel Plate	11/18/81	--	--	--	--	--	--	--

Country	Product	Initiation	Provisional measures	Final outcome					
				Definitive duty	Undertakings	No subsidy	No injury	Case withdrawn	Other
1	2	3	4	5	6	7	8	9	10
Brazil	Carbon Steel Plate	11/18/81	--	--	--	--	--	--	--
Belgium	Carbon Steel Plate	11/18/81	--	--	--	--	--	--	--
Spain	Structural Steel	11/24/81	--	--	--	--	--	--	--
France	Hot Rolled Sheet Steel	11/18/81	--	--	--	--	--	--	--
Canada	Hard Smoked Herring	11/16/81	--	--	--	--	--	--	--
Spain	Potassium Permanganate	11/25/81	--	--	--	--	--	--	--

SUMMARY OF INTERNATIONAL TRADE COMMISSION INVESTIGATIONS UNDER SECTION 337 OF THE TARIFF ACT OF 1930 AS AMENDED BY THE TRADE ACT OF 1974

Total Number of Cases	110
Violations	26
Terminated, No Violation	41
Terminated by Consent Order, Licensing Agreement, or Other Settlement	23
Pending	19
Withdrawn	1
Presidential Disapproval of USITC Actions	2

337-	Title & Date of Publication of Notice of Investigation in Federal Register & Name of Complainant	Outcome & Date of Publication of Final Notice in Federal Register
TA-1	Electronic Pianos (originally 337-31, 9/28/72) 6/4/75 Wurlitzer Co.	Terminated (2/6/76); no violation based on settlement agreement which resulted from a district court decision finding patents valid and infringed.
TA-2	Convertible Game Tables (originally 337-34, 9/12/73) 6/4/75 Ebonite Corp.	Exclusion Order issued 4/8/76; expires 1/16/90
TA-3	Doxycycline (originally 337-36, 5/2/73) 6/4/75; suspended 8/18/75; resumed 2/21/78 Pfizer, Inc.	Exclusion Order issued 4/16/79; expires 8/10/82
TA-4	Expanded, Unsintered Polytetrafluoroethylene in Tape Form (PTFE Tape)(originally 337-38, 6/4/74) 6/4/75 W.L. Gore and Assoc. Inc.	Terminated (4/8/76); no violation
TA-5	Chain Door Locks (originally 337-39, 11/5/74) 6/4/75 Ideal Security Hardware Corp.	Exclusion Order issued 4/8/76; expires 12/15/81, 9/27/83, 8/6/85 -for 3 patents involved -- U.S. Patent Nos. 3,275,364; 3,395,556; and 3,161,035, respectively.
TA-6	Eye-Testing Instruments Incorporating Refractive Principles (originally 337-41, 2/13/75) 6/4/75 American Optical Corp.	Terminated (4/5/76); no violation based on license agreement
TA-7	Electronic Audio and Related Equipment (originally 337-L-65, 7/30/73) 6/4/75 Vernitron Corp.	Terminated (4/8/76); no violation

337-	Title & Date of Publication of Notice of Investigation in Federal Register & Name of Complainant	Outcome & Date of Publication of Final Notice in Federal Register
TA-8	Piezoelectric Ceramic Electric Wave Filters (originally 337-L-68, 11/30/73) 6/4/75 Vernitron Corp.	Terminated (12/18/75); no violation based on license agreements
TA-9	Hydraulic Tappets II (originally 337-L-73,) 6/4/75 Eaton Corp.	Terminated (4/5/76); no violation
TA-10	Ultra-Microtome Freezing Attachments (originally 337-L -74, 8/19/74) 6/4/75 American Optical Corp.	Terminated (4/8/76); no violation
TA-11	Electronic Printing Calculators (originally 337-L-75, 9/3/74) 6/4/75 Addmaster Corp.	Terminated (1/19/76); no violation based on license agreement
TA-12	Automatic Tobacco Leaf Graders (originally 337-L-76, 9/25/74) 6/4/75 AMF Inc.	Terminated (12/18/75); no violation based on settlement agreement
TA-13	Liquid Propane Heaters (originally 337-L-77, 10/10/74) 6/4/75 Schen Products Co.	Terminated (4/6/76); no violation based on settlement agreement
TA-14	High Fidelity Audio and Related Equipment (originally 337-L-78, 11/12/74) 6/4/75 Audio Warehouse Sales, Inc.; Douglas T.V.; Hi-Fi Stereo Center Corp; Plaza Audio Video, Inc.	Terminated (3/2/76); no violation based on settlement agreements and consent order to cease and desist entered into between U.S. Pioneer Electronics Corp. and the FTC
TA-15	Overlapping Digital Movements (originally 337-L-79, 12/16/74) 6/4/75 General Time Corp.	Terminated (3/29/76); no violation based on license agreements
TA-16	Angolan Robusta Coffee (originally 337-L-80, 12/27/74) 6/4/75 Confico, Inc.; Imperial Commodities Corp.; Mitsui & Co. (USA), Inc.; S.F. Pellas Co., Inc.; Van Ekris & Stoeff, Inc.	Terminated (3/30/76); no violation based on settlement agreement
TA-17	Record Players Incorporating Straight Line Tracking Systems 7/24/75 - Harman-Kardor, Inc.; Jacob Rabinow	Terminated (3/5/76); no violation based on license agreement
TA-18	Monolithic Catalytic Converters 7/23/75; suspended 12/10/75; resumed 2/6/75 Engelhard Minerals & Chemicals Corp.	Terminated (9/22/76); no violation based on license agreement; CCPA dismissed appeal 76-3 (188 USPQ 491; 2/3/76)

337	Title & Date of Publication of Notice of Investigation in Federal Register & Name of Complainant	Outcome & Date of Publication of Final Notice in Federal Register
TA-19	Glass Fiber Optic Devices and Instruments Equipped with Glass Fiber Optic Devices 8/27/75 American Cystoscope Makers, Inc.	Terminated (8/ /76); no violation based on license agreement
TA-20	Bismuth Molybdate Catalysts 10/15/75 Standard Oil Co.	Terminated (10/21/76); no violation; CCPA affirmed Commission decision but stated that it was with prejudice to complainant (193 USPQ 693)
TA-21	Dry Wall Screws 11/13/75 Superior Dry Wall Screw Mfg. Co., Inc.	Terminated (11/3/76); no violation based on license agreement
TA-22	Reclosable Plastic Bags 1/15/76 Minigrip, Inc.	Exclusion Order issued 1/24/77; expires 8/3/82
TA-23	Color Television Receiving Sets 4/1/76 GTE Sylvania, Inc.; Philco Consumer Electronics Corp.	Terminated (8/4/77); no violation based on 6 consent order agreements (reporting requirements for 5 years)
TA-24	Exercising Devices 4/20/76 Rainbow Lifeguard Products, Inc.	Exclusion Order issued 4/25/77; expires 7/3/90
TA-25	Above-Ground Swimming Pools 4/29/76 Coleco Industries, Inc.	Terminated (5/4/77); no violation; CCPA affirmed Commission decision (197 USPQ 472)
TA-26	Solder Removal Wicks 7/1/76 Solder Removal Co.; Jesse C. Hood	Terminated (July 1977); no violation; CCPA affirmed Commission decision (199 USPQ 129)
TA-27	Chicory Root-Crude and Prepared 7/16/76 Schanzer Corp.	Terminated (4/3/77); no violation
TA-28	Knitting Machines and Throat Plates Therefor 11/12/76 Marvel Specialty Co., Inc.	Terminated (3/30/77); no violation (complainant disclaimed all claims of the subject patent to the public)

337	Title & Date of Publication of Notice of Investigation in Federal Register & Name of Complainant	Outcome & Date of Publication of Final Notice in Federal Register
TA-29	Welded Stainless Steel Pipe and Tube 2/22/77 Acme Tube, Inc.; Allegheny-Ludium Steel Corp.; Armco Steel Corp.; et al.	Cease and desist order issued 3/1/78; however, it was not approved by the President
TA-30	Display Devices for Photographs and the Like 2/18/77 Charles D. Burnes Co.	Exclusion Order issued 1/12/78; expires 11/27/90
TA-31	Steel Toy Vehicles 4/15/77; amendment to notice, 7/25/77 Tonka Corp.	Terminated (4/28/78); no violation
TA-32	Dot Matrix Impact Printers 4/26/77 Centronics Data Computer Corp.	Terminated (12/13/77); no violation based on license agreement
TA-33	Light Shields for Sonar Apparatus 4/26/77 Lawrence Electronics, Inc.	Terminated (10/31/77); no violation
TA-34	Numerically Controlled Machining Centers and Components Thereof 5/17/77 Burgmaster Div.,Houdaille Industries,Inc.	Terminated (2/9/78); no violation based on license agreement
TA-35	Molded Golf Balls 7/6/77 PCR Golf Ball Co., Inc.	Exclusion Order issued 7/6/78; expires 4/11/84
TA-36	Plastic Fastener Assemblies 8/11/77; notice of suspension 10/18/77; notice of resumption 11/10/77; notice of extension of suspension 1/4/78; notice of resumption 4/11/78; notice of suspension 9/22/78 Dennison Mfg. Co.	Terminated (3/26/80) based on settlement agreement; parties moved to terminate following district court's issuance of permanent injunction after finding complainant's patent valid and infringed
TA-37	Skateboards and Platforms Thereof 11/11/77 Mahaka International	Terminated (11/16/78); no violation (Commission found patent invalid); remanded by CCPA (CCPA found patent valid) exclusion order issued 10/9/80; expires 2/23/88
TA-38	Food Slicers 11/10/77 Prodyne Enterprises, Inc.	Terminated (7/17/78); no violation based on affidavits wherein respondents state they are no longer importing the item in question and will not import it in the future

337	Title & Date of Publication of Notice of Investigation in Federal Register & Name of Complainant	Outcome & Date of Publication of Final Notice in Federal Register
TA-39	Luggage Products 11/30/78 Airway Industries, Inc.	Exclusion Order issued 11/30/78; expires 11/2/90; (TEO hearing held but no TEO was issued) ●
TA-40	Monumental Wood Windows 2/9/78 Wrand Industries, Inc.	Terminated with prejudice to complainant (1/11/79); no violation
TA-41	Ceramic Tile Setters 2/10/78 Ferro Corp.	Terminated (9/11/78); no violation (complainant disclaimed the relevant claims of the subject patent)
TA-42	Electric Slow Cookers 2/9/78 Rival Mfg. Co.	Exclusion Order issued 8/9/79; expires 4/29/92 (two respondents terminated based on license agreements) ●
TA-43	Centrifugal Trash Pumps 2/14/78 Hale Fire Pump Co.	Terminated (2/20/79); no violation; CCPA affirmed Commission decision 2/7/80 (205 USPQ 123)
TA-44	Roller Units 2/14/78 Presto Lock Co.	Exclusion Order issued 2/14/79; expires 5/24/94 ●
TA-45	Combination Locks 2/16/78 Presto Lock Co.	Terminated (Feb. 1979); no violation
TA-46	Telescopic Sight Mounts 2/17/78 Clear New Mfg. Co.	Terminated (9/21/78); no violation based on affidavits wherein respondents state they are no longer importing the item in question and will not import it in the future
TA-47	Flexible Foam Sandals 2/17/78 Tiddies, Inc.	Exclusion Order issued 2/21/79; expires 9/7/93 ●
TA-48	Alternating Pressure Pads 2/23/78 Gaymar Industries, Inc.	Terminated (3/6/79) based on settlement agreement; no determination made as to violation

337	Title & Date of Publication of Notice of Investigation in Federal Register & Name of Complainant	Outcome & Date of Publication of Final Notice in Federal Register
TA-49	Attache Cases 3/7/78 Samsonite Corp.	Terminated (March 1979); no violation
TA-50	Synthetic Gemstones 3/17/78 Queensbury Opal Co., Ltd.	Terminated (3/20/79); no violation based on license agreement
TA-51	Cigarette Holders 3/23/78 Spoon Ring Co.	Terminated (March 1979); no violation
TA-52	Apparatus for the Continuous Production of Copper Rod 5/22/78 Southwire Co.	3 Cease and Desist Orders issued 11/30/79; one expires 5/10/84 based on U.S. Patent No. 3,317,994; one expires 11/30/86 (Tr. Secret No. 5); one expires 11/30/84 (Tr. Secret No. 11); advisory opinion issued (7/23/80) indicating that the Krupp system for Phelps-Dodge did not violate 3 cease desist orders; settlement in 337-TA-89 simplified Krupp's reporting requirements under the '52 cease and desist orders.
TA-53	Swivel Hooks and Mounting Brackets 6/14/78 Coats & Clark, Inc.	Terminated (6/14/79) based on settlement agreement
TA-54	Multicellular Plastic Film 6/29/78 Sealed Air Corp.	Exclusion Order issued 6/29/79; expires 12/17/85; affirmed by CCPA, 3/12/81 (no violation by Tong Seae); advisory opinion issued 5/6/81 stating that Canadian Tarpoly Co.'s use of the process in U.S. rather than in Canada would not violate exclusion order.
TA-54A	Multicellular Plastic Film 6/29/78 Huang Well Industrial Co. Ltd.	Terminated (3/31/81); no infringement (no violation by Huang Well)
TA-55	Novelty Glasses 7/11/78 Howw Mfg. Co., Inc.; Plus Four, Inc.	Exclusion Order issued 7/11/79; no expiration date (complainants will provide affidavits and samples every six months demonstrating continued use of the trade dress upon which the order is based)

337	Title & Date of Publication of Notice of Investigation in Federal Register & Name of Complainant	Outcome & Date of Publication of Final Notice in Federal Register
TA-56	Thermometer Sheath Packages 7/25/78 Steridyne Corp.	Exclusion Order issued 7/25/79; expires 1/5/88; affirmed by CCPA 8/28/80 (207 USPQ 1)
TA-57	Cattle Whips 8/7//78 Stockmen's, Inc.	Terminated (8/15/79) based on consent order agreement (1st one ever in a patent-related 337 investigation) whereby respondents agreed to modify their whips so as not to infringe complainant's whips.
TA-58	Fabricated Steel Plate Products From Japan 9/15/78 Steel Plate Fabricators Assn.	Terminated (1/24/79); no violation
TA-59	Pump Top Insulated Containers 11/22/78 Aladdin Industries, Inc.	Exclusion Order issued 11/9/79; expires 9/25/95 (certain parties terminated based on settlement agreement)
TA-60	Automatic Crankpin Grinders 12/15/78 Litton Industrial Products, Inc.	Terminated (Dec. 1979); violation found but public interest factors precluded imposition of a remedy; Commission determined that the domestic industry can't supply the automobile industry's demand for new orders of the patented product within a commercially reasonable length of time in order for them to make parts for fuel-efficient engines; CCPA denied (2/14/80) complainant's petition for writ of mandamus.
TA-61	Compact Cyclotrons with a Pre-Septum 12/28/78 The Cyclotron Corp.	Terminated (12/28/79) based on consent order agreement whereby respondents agreed to cease importing "old cyclotrons" but can import "new cyclotrons" (not covered by the patent in issue)
TA-62	Rotary Scraping Tools 1/10/79 Thompson Tool Co., Inc.	Exclusion Order issued 1/10/80; expires 5/25/93
TA-63/65	Precision Resistor Chips 1/17/79; 4/17/79 TA-63: Vishay Intertechnology, Inc. TA-65: Societe Francaise de L'Electro-Resistance (Sfernice)	Terminated (5/14/79); based on license agreement (2nd investigation instituted based on complaint brought by respondents against complainant)

337	Title & Date of Publication of Notice of Investigation in Federal Register & Name of Complainant	Outcome & Date of Publication of Final Notice in Federal Register
TA-64	High Voltage Circuit Interrupters and Components Thereof 3/20/79; suspended 10/11/79 Westinghouse Electric Corp.	Investigation suspended 10/11/79; CCPA found applicable claims of reissue patent obvious under 35 USC 103; Terminated (7/15/81) with prejudice
TA-66	Plastic Molding Apparatus and Components Thereof 5/10/79 I.P. Container Corp.	Terminated (2/13/80) based on license agreement
TA-67	Inclined Field Acceleration Tubes 6/27/79 High Voltage Engineering Corp.	Terminated (12/29/80); violation found but public interest factors -- the continued availability of tubes essential to scientific research programs affecting the public health and welfare -- precluded imposition of a remedy
TA-68	Surveying Devices 7/5/79 Gammon Reel, Inc.	Exclusion Order issued 7/11/80; expires 3/9/82; advisory opinion imminent
TA-69	Airtight Cast-Iron Stoves 7/12/79 Jotul, Inc.; Kristia Associates; Jotul Stove Dealers of the U.S.	Exclusion Order issued 12/31/80; no expiration date (non-patent); 6 Cease and Desist Orders issued 12/31/80; expire 12/31/85; exclusion order and cease and desist orders modified on 2/4/81 and 2/20/81; terminated as to 25 other respondents based on 21 consent order agreements and 4 settlement agreements
TA-70	Coat Hanger Rings 7/18/79 International Coat Hanger Mfg. Co.	Terminated (5/21/80) based on settlement agreement
TA-71	Anaerobic Impregnating Compositions and Components Thereof 8/31/79 Loctite Corp.	Terminated (5/27/80); no violation
TA-72	Turning Machines and Components Thereof 10/29/79 Warner and Swasey Co.	Terminated (12/11/80) based on license agreement

337	Title & Date of Publication of Notice of Investigation in Federal Register & Name of Complainant	Outcome & Date of Publication of Final Notice in Federal Register
TA-73	Tire Changers I (complaint filed 10/1/79) Hennessy Industries, Inc.	Publication of notice of investigation in F.R. was stayed by CCPA on 11/6/79. Consent order agreement was filed but Commission declined to consider it. CCPA vacated its order -- parties then requested further stay of publication of notice in F.R. On 5/20/80, Commission allowed withdrawal of complaint by complainant.
	Tire Changers II	Complaint filed again; after informal investigation, CIA discovered there was no foreign production by respondents and recommended not to institute; Commission voted not to instituted and complaint was dismissed.
TA-74	Rotatable Photograph and Card Display Units and Components Thereof 11/21/79 Roto-Photo Co., Inc.; Aaron H. Schneider	Exclusion Order issued 1/22/81; no expiration date as to trademark; re. U.S. Patent Nos. 3,218,743 and 3,791,059, expires 11/23/82 and 2/12/91, respectively.
TA-75	Video Matrix Display Systems 12/19/79 Stewart-Warner Corp.	Exclusion Order issued 6/24/81; expires 7/20/88, 3/2/93, 2/22/94--for 3 patents involved--for U.S. Patent Nos. 3,594,762; 3,941,926; and 4,009,335, respectively; exclusion order modified 8/10/81 to suspend that portion of the order referring to the '926 and '335 patents, pending resolution of the valdity of those patents on appeal.
TA-76	Food Slicers 12/21/79 Prodyne Enterprises, Inc.	Terminated (6/26/81); no violation (DINAN)
TA-77	Computer Forms Feeding Tractors and Components Thereof 1/30/80 Shinshu Seiki Co., Ltd.	Terminated (1/7/81) based on license agreement
TA-78	Poultry Disk Picking Machines and Components Thereof 2/27/80 Stork-Gamco, Inc.	Terminated (2/5/81) based on settlement agreement entered into by the parties following U.S. district court decision that imports do not infringe the patent
TA-79	Cathode Sputter Coated Glass Transparencies 2/27/80 PPG Industries, Inc.	Terminated (10/22/80) based on license agreement

337	Title & Date of Publication of Notice of Investigation in Federal Register & Name of Complainant	Outcome & Date of Publication of Final Notice in Federal Register
TA-80	Plastic Bouquet Holders 3/4/80 Lomey Mfg. Co.	Terminated (12/17/80) based on consent order agreement
TA-81	Hollow Fiber Artificial Kidneys 4/2/80 Cordis Dow Corp.	Terminated (3/18/81) based on license agreement
TA-82	Headboxes and Papermaking Machine Forming Sections for the Continuous Production of Paper and Components Thereof 4/8/80 Beloit Corp.	Exclusion order issued 4/15/81; however, not approved by the President because of too broad a remedy; sent back to the Commission; see 337-TA-82A.
TA-82A	Headboxes and Papermaking Machine Forming Sections for the Continuous Production of Paper and Components Thereof 7/1/81	Instituted by Commission after disapproval by the President of remedy issued in 337-TA-82 because it was too broad.
TA-83	Window Shades and Components Thereof 5/29/80 Newell Furnishings Co.	Terminated (3/18/81) as to two respondents based on 2 consent order agreements; Exclusion order issued 6/12/81; expires 2/8/94
TA-84	Chlorofluorohydrocarbon Drycleaning Process, Machines and Components Therefor 6/11/80 Research Development Co.	Joint Motion to Terminate (based on license agreements) pending before Commission
TA-85	Slide Fastener Stringers and Machines and Components Thereof for Producing Such Slide Fastener Stringers 6/13/80 Talon Div. of Textron, Inc.	Terminated (3/3/81); parties moved to terminate in light of denial of temporary relief and impending expiration dates of patents in issue
TA-86	Shell Brim Hats 6/25/80 Zwicker Knitting Mills	Terminated (4/29/81) based on consent order agreement
TA-87	Coin Operated Audio-Visual Games and Brochures for the Advertisement Thereof 6/25/80 Midway Mfg. Co.	Exclusion order issued 7/1/81 (no patents involved); terminated (3/3/81) as to 3 of the 24 named respondents based on settlement agreement; consent order re. another respondent not approved since CIA was not a party to the negotiations. TEO hearing held

337	Title & Date of Publication of Notice of Investigation in Federal Register & Name of Complainant	Outcome & Date of Publication of Final Notice in Federal Register
		but request for TEO withdrawn right before RD of ALJ was to be issued.
TA-88	Spring Assemblies and Components Thereof, and Methods for Their Manufacture 8/8/80 Kuhlman Corp.	Exclusion order issued (8/10/81); expires 1/1/91 and 2/18/92 for U.S. Patent Nos. 3,782,708 and 3,866,287, respectively.
TA-89	Apparatus for the Continuous Production of Copper Rod 8/13/80 Southwire Co.	Temporary Exclusion Order issued 11/6/80; investigation suspended 2/3/81 until CCPA final decision in Appeal Nos. 80-19 and 80-21 relative to 337-TA-52; Commission approved settlement agreements 7/15/81, terminating the investigation and appeals.
TA-90	Airless Paint Spray Pumps and Components Thereof 11/21/80 Wagner Spray Tech Corp.	ALJ's Recommended Determination finding a violation is before Commission.
TA-91	Mass Flow Devices and Components Thereof 11/26/80 Tylan Corp.	Terminated (9/30/81) based on license agreement.
TA-92	Airtight Wood Stoves 12/17/80 Energy Harvesters Corp.	Terminated (10/15/81) as moot based on consent orders issued in 337-TA-106.
TA-93	Universal Joint Kits, Components Thereof, and Trunnion Seals Used Therewith 12/24/80 Dana Corp.	Terminated (10/15/81) based on settlement agreement.
TA-94	Wet Motor Circulating Pumps and Components Thereof 12/31/80 Taco, Inc.	Terminated (9/30/81) based on settlement agreement.
TA-95	Surface Grinding Machines and Literature for the Promotion Thereof 1/21/80 Brown & Sharpe Mfg. Co.	Joint motions to terminate based on either settlement agreements or consent orders re. various respondents pending before Commission.

337	Title & Date of Publication of Notice of Investigation in Federal Register & Name of Complainant	Outcome & Date of Publication of Final Notice in Federal Register
TA-96	Modular Pushbutton Switches and Components Thereof 1/28/81 ITT Schadow, Inc.	Motion to terminate based on settlement agreement pending before Commission, opposed by CIA because not allowed to participate in settlement negotiations.
TA-97	Steel Rod Treating Apparatus and Components Thereof 1/28/81 Morgan Construction Co.	ALJ recommended finding of no violation; oral argument held before the Commission on 10/14/81.
TA-98	Screw Jacks and Components Thereof Including Cold-Worked Pinion Gears 2/11/81 Auto Specialties Mfg. Co.	Motion to terminate based on settlement agreement pending before Commission.
TA-99	Molded-In Sandwich Panel Inserts and Methods for Their Installation 4/29/81 Shur-Lok Corp.	Hearing held 10/20/81; briefs of parties due 11/3/81. (ELSAS-PATRICK)
TA-100	Thermal Conductivity Sensing Gem Testers and Components Thereof 5/20/81 Ceres Electronics Corp.	Motion to terminate based on settlement agreem is imminent.
TA-101	Hot Air Corn Poppers 5/22/81 Wear-Ever Aluminum, Inc.	Discovery in progress; ALJ granted extension to 10 months for recommended determination.
TA-102	Wheel Locks 5/28/81 McGard, Inc.	Motion to terminate based on settlement agreement pending before Commission.
TA-103	Stabilized Hull Units and Components Thereof and Sonar Units Utilizing Said Stabilized Hull Units 6/10/81 Western Marine Electronics, Inc.	Discovery in progress
TA-104	Card Data Imprinters and Components Thereof 6/12/81 AM International, Inc.; Bartizan Corp.	Discovery in progress
TA-105	Coin-Operated Audiovisual Games and Components Thereof 7/1/81 Midway Mfg. Co.	Discovery in progress; recommended determination re. TEO is imminent.
TA-106	Airtight Cast-Iron Stoves 7/8/81 (1st self-initiated investigation) U.S. Int'l Trade Commission	Terminated (9/2/81) based on consent orders.
TA-107	Ultrafiltration Membrane Systems and Components Thereof, Including Ultrafiltration Membranes 7/15/81 Romicon, Inc.; Comex, Inc.	Discovery has been stayed; motion to terminate is before ALJ.

337	Title & Date of Publication of Notice of Investigation in Federal Register & Name of Complainant	Outcome & Date of Publication of Final Notice in Federal Register
TA-108	Vacuum Bottles and Components Thereof 10/2 /81 Union Mfg. Co.	Discovery in progress
TA-109	Multi-Sequential Coded Radio Pagers 10/28/81 (Comm. Not.) Motorola, Inc.	Discovery in progress
TA-110	Methods for Extruding Plastic Tubing 11/4/81 (Comm. Not.) Minigrip, Inc.	Discovery in progress

Chairman GIBBONS. I also have a few additional questions on the operation of the import relief and section 337 laws on which I would appreciate responses for the record.

[The questions and answers follow:]

Question. With respect to import relief, what factors account for this difference in remedy recommended and remedy applied?

Answer. The President in determining what method and amount of import relief he will provide is required by section 202(c) of the Trade Act of 1974 to consider a number of factors which are not considered by the Commission in making its recommendation for relief. Among those factors are the effectiveness of the relief as a means to promote adjustment by the industry concerned, the economic and social costs which would be incurred by taxpayers communities and workers if import relief were or were not provided, the impact on United States industries and firms as a consequence of any possible modification of duties or other import restrictions which may result from international obligations with respect to compensation. These as well as the other factors listed in section 202(c) may indicate that another form of remedy is more appropriate than that recommended by the Commission.

Question. How does the Administration go about deciding upon a remedy?

Answer. Upon receiving a determination from the Commission an inter-agency task force is formed by the U.S. Trade Representative's Office under the trade policy committee structure. Representatives from various agencies prepare a preliminary analysis of the factors required to be considered by section 202(c) and any other factors deemed appropriate. This interagency task force, chaired by the U.S.T.R.'s office, prepares a preliminary recommendation and analysis of the case and transmits this to the Trade Policy Staff Committee for further reviews. The Trade Policy Staff Committee, the Trade Policy Review Group, and/or the Trade Policy Committee then conducts any necessary further review and analysis of the case and following that the United States Trade Representative transmits the final advice and recommendation(s) to the President for final decision.

Question. Does the ITC recommendation of a remedy serve a useful purpose in the Administration's deliberations and final decision?

Answer. The Commission's recommendation, and more importantly the basis therefore, do serve a useful purpose for the Administration's review and analysis. While the Commission's precise remedy has not been adopted in previous cases, it does provide a point of departure for further Administration review and refinement for the level of relief necessary to remedy the injury.

Question. Expedited adjustment assistance has been the remedy directed by the President in 5 of the 14 cases in which he has decided to provide some form of industry relief under the Trade Act of 1974.

How viable is adjustment assistance now as an alternative or adjunct to import restrictions as a form of relief, particularly for larger industries, given the very large cutback in the program for workers with the emphasis now on the long-term or permanently unemployed, and the fact that the firm program is geared to small and medium-sized firms?

Answer. The Administration continues to believe that the adjustment assistance program is a useful mechanism for assisting workers and firms in adjusting to import competitions, particularly as those programs relate to retraining for workers.

Question. The number of import relief petitions filed with the ITC has declined significantly in the past few years. In 1976 the Commission issued 12 determinations. Only 2 determinations were issued in 1979, 5 in 1980, and, since the auto determination in December 1980, there has been only one ITC investigation.

To what do you attribute this decline? For example, is it a reflection that domestic industries may not need relief from increased imports resulting from fair competition rather than dumping or subsidies? Is it a belief by domestic industries based on the track record to date (import relief granted in only 9 of 44 cases under the 1974 Trade Act) and the emphasis of this Administration on free market forces that the chances of getting relief are too slim to make the legal fees worth the try?

Answer. The Administration is committed to the effective enforcement of U.S. trade laws and an effective approach to industrial adjustment problems. While it is true that one of the most difficult challenges we face is the growing intervention of foreign governments in international trade, exemplified by subsidization of export credits, we believe that domestic industries still have full confidence in the Administration's commitment to enforce United States law dealing with increased imports resulting from fair competition. Economic conditions for some industries may make it difficult for them to obtain import relief under the escape clause provisions in

U.S. law, however, we do not believe that any relative decrease in the number of cases is related to the Administration's trade policy.

Question. In his testimony before the Subcommittee last week, Bill Krist mentioned that USTR is going to be looking at the import relief laws to see how they are working, to do a systematic review.

Would you elaborate on this in terms of what areas or issues you will be looking at and the timetable? Are there deficiencies in the import relief or other import laws which you are aware of now and possible changes you may be proposing in the statutes or regulations?

Answer. The U.S.T.R. in exercising its policy responsibility for import relief is constantly in the process of reviewing and analyzing the impact of the United States' trade actions and laws on our international trade policy. We plan in early 1982 to consult with interested Members of Congress and their staff and the private sector to determine an agenda for reviewing, as appropriate, these matters.

Question. In an April 17, 1981 letter responding to a draft of the August General Accounting Office report on import relief, USTR stated it would be "willing to consider" procedures for additional emphasis on "adjustment" in the initial decision-making process and periodic evaluations of industry adjustment efforts under relief. Given the adjustment purpose of import relief, is this an area USTR is now considering or planning to include in the import relief review? To what extent have efforts to adjust been considered or a deciding factor in Presidential decisions to continue relief during an initial period or to extend relief?

Answer. Adjustment is an extremely important factor in import relief determinations by the President. It would be an essential factor in any review of import relief practices and procedures. In previous reviews of import relief cases adjustment has been considered very carefully and is an important factor.

Questions. In reviewing ITC actions in cases of violations under section 337 for possible Presidential override, what circumstances are considered as appropriate for the use of exclusion orders and cease and desist orders, respectively? Have any deficiencies come to light in section 337 which the administration believes may warrant changes?

Answer. The determination of whether an exclusion order or a cease and desist order is an appropriate remedy in a case belongs to the United States International Trade Commission. If the remedy selected does not comply with U.S. international trade obligations or if it would affect adversely competitive conditions in the U.S., health and welfare in the U.S., production of like or directly competitive products or U.S. consumers, it could be disapproved for policy reasons under the President's authority in section 1337(g).

In reviewing determinations of the Commission, an interagency committee, made up of representatives of the member agencies of the Trade Policy Committee, considers the way in which that determination and the remedy provided the foreign policy of the United States, both economic and both political, and the domestic policy factors indicated in the legislative history. That consideration must be made on a case-by-case basis because of the variance in industries and the trading relationships involved.

There are no deficiencies in section 337 which the Administration believes require amendment of the statute.

Chairman **Gibbons**. I want to say that this concludes the first phase of our hearings with witnesses from the administration and other public agencies. As soon as the full committee schedule permits, we will announce other hearing dates in which we will ask the private sector who are interested to come before the committee and comment on the testimony given here today and upon any other questions we have.

We seek to see whether, one, our policy is correct, and, two, whether our laws are adequate, and, three, whether these laws are being adequately administered. That is the purpose of these hearings.

Thank you very much for your help.

The hearing will be adjourned, subject to the call of the Chair.

[Whereupon, at 12:15 p.m., the hearing was adjourned.]

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